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Politics this week

May 30th 2002
From The Economist print edition

George Bush visits Europe

President George Bush visited Germany, Russia, France and Italy, in part to shore up support for America's war on terror but also, in Moscow, to sign an agreement to reduce nuclear weapons; and, in Rome, to attend a NATO gathering where Russia's new relationship with the alliance was formally endorsed.

See article: Summing up George Bush's European tour

Spain's government enacted by decree a new law to ease labour markets, despite union warnings of a general strike against it on June 20th—just before EU leaders meet in Seville to round off Spain's six-month EU presidency.

The European Commission proposed a cut of at least 30% in **fishing by EU boats**, scrapping of one boat in 12 and no more subsidies to upgrade those left or build new ones. Too harsh, cried the governments of Spain and Portugal; a Spanish member of the commission, Loyola de Palacio, made clear she thought so too. Hard bargaining and arm-twisting lies ahead.

AP

See article: The EU's controversial fishing proposals

Opinion polls suggested a victory for the centre-right in the first of two rounds (June 9th and 16th) of **France's** general election. That would be a great relief for President Jacques Chirac, after his years of uneasy “cohabitation” with a centre-left government.

See article: France's muddled left

As the World Cup was about to open in Korea and Japan, FIFA, the ruling body of world **football,** re-elected Sepp Blatter, its Swiss president, for a further four years, despite the financial collapse last year of its marketing arm, ISL, and allegations of mismanagement—and worse—raised against him by members of FIFA's executive.

See article: Time for a clean-up

A rare victory for nuclear power: **Finland's** parliament voted to add a fifth reactor to the four in its two nuclear plants. The Greens quit the government of Paavo Lipponen in protest, but it retains its comfortable majority.

Kashmir twists

Governments around the world urged nuclear-armed India and Pakistan to exercise restraint in their quarrel over **Kashmir**. Pakistan tested three missiles which are capable of carrying nuclear warheads. India claimed that members of Osama bin Laden's al-Qaeda network were now among the anti-Indian militants gathered in Pakistan.

See article: India and Pakistan

A 22-year-old Boeing 747-200 jet, owned by **China Airlines** of Taiwan, blew up in mid-air killing all 225

people aboard. It was the airline's fourth fatal accident since 1994.

Nepal claimed one of its biggest victories against Maoist guerrillas when more than 150 were killed in an attack on an army camp in the west of the country. Five soldiers died.

See article: Nepal's general election

Blame game

As recriminations continued to echo round Washington as to who knew what and when about the **September 11th attacks**, the head of the FBI, Robert Mueller, announced a change in the bureau's mission. From now on, counter-terrorism will be its priority, CIA agents will be invited into FBI field offices, and several hundred agents will be reassigned from domestic crimes to terrorism.

See article: The FBI struggles to reform itself

Thirteen people died when a **bridge collapsed** that carried Interstate 40, a main east-west highway, across the Arkansas River in Oklahoma.

The **Supreme Court** agreed to reopen the issue of whether laws against cross-burning constitute a restriction of freedom of speech.

Uribe wins through

Reuters

Alvaro Uribe, a dissident Liberal who stood on a law-and-order platform, was elected as **Colombia's** next president. He won 53% of the vote, enough to avoid a run-off ballot. After his victory, he set out terms for new peace talks with the FARC guerrillas, including UN mediation.

See article: Colombia's presidential election

For the second time in less than two months, Eduardo Duhalde threatened to resign as **Argentina's** president because of delays in the approval of reforms required for an IMF agreement. He withdrew the threat after provincial governors promised to implement budget cuts.

See article: Survival in Argentina

Jean Chrétien, **Canada's** prime minister, sacked his defence minister, Art Eggleton, who had admitted hiring a former girlfriend with no medical qualifications as a consultant to study soldiers' health. A second minister also stepped down over allegations of improper conduct.

The violence goes on

William Burns, America's **Middle East** envoy, began a new tour of the region. Israel continued its raids into West Bank towns after three students were killed in a West Bank settlement, and a suicide bomber killed a woman and a baby in an Israeli shopping mall.

Lawyers acting for the families of some 270 people killed in the 1988 **Lockerbie** explosion of an American jumbo jet, announced that Libya was offering $2.7 billion in conditional compensation. Although Libya denied making the offer, a deal seemed to be in the air.

See article: Libya's compensation for Lockerbie

The World Food Programme's latest figures show that well over 10m people in **southern Africa** now need food aid after poor rains, a terrible harvest and mismanagement by some governments.

See article: Southern Africa's food shortage

A train crash in **Mozambique** killed 200 passengers and injured 400 more. The driver of the train, which collided with wagons carrying cement, was quickly blamed, but broken brakes and a weak engine were also at fault.

President Abdelaziz Bouteflika said **Algeria's** parliamentary election on May 30th was “a matter of life or death”. Others were more cynical. The once-dominant FLN party, now reborn, was expected to do well, as were the “moderate” legal Islamic parties. But several opposition parties boycotted the poll, as did Berber activists in the Kabylie region, who called a three-day strike. Terrorist groups resumed their attacks in and around Algiers.

In **Tunisia**, President Zine el-Abidine Ben Ali claimed to have won more than 99% of the votes in a referendum designed to allow him to stay in power for a fourth term in 2004, and a fifth in 2009.

EPA

A planned meeting between rival camps in **Madagascar** collapsed after supporters of Marc Ravalomanana, who claims to be president, detained the ex-prime minister, Tantely Andrianarivo, and killed some of his guards. Mr Andrianarivo is loyal to ousted president Didier Ratsiraka, who retains support in rural and coastal areas.

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Business this week

May 30th 2002
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Fiat's rescue plan

Fiat and its bankers, concerned about downgrades from rating agencies, unveiled a rescue plan for the beleaguered Italian industrial group. The banks will offer a *euro*3 billion ($2.8 billion) loan, convertible into equity if required, for 51% of the financial-services side of Fiat's car business. Fiat also promises to reduce net debt from *euro*6.6 billion to *euro*3 billion by the end of the year through asset sales. But its car-making division is still in deep trouble.

See article: Fiat has bought some time to turn itself into a profitable business

South African Breweries is to buy Miller Brewing from America's tobacco and food giant, Philip Morris, for $5.6 billion. SAB, now based in London, will become the world's second-biggest beer maker after America's Anheuser-Busch. Miller, the second-biggest American brewer, had languished under the ownership of Philip Morris, which will now become a big shareholder in SAB.

Air France avoided the turbulence that has engulfed much of the airline industry and announced a profit of *euro*153m ($135m) for the year, albeit 64% down on the year before. The state-controlled airline is less exposed than many rivals to the transatlantic market. It has also benefited from the demise of two competitors, Belgium's Sabena and Swissair, last year.

E.On said that it would exercise an option to sell its remaining 49% stake in Veba Oel to Britain's BP for *euro*3.3 billion ($3.1 billion). The German utility has spent some years selling assets and using the proceeds to bolster its core power and gas activities.

Paying the phone bill

Vodafone, the world's biggest mobile-phone operator, announced a record loss for a British business of £13.5 billion ($19.3 billion) for the year. Despite writing off goodwill from depreciating assets and taking other charges to the tune of £20 billion the company did not fare as badly as analysts expected. Vodafone remained upbeat as turnover improved and debts fell.

See article: Vodafone's writedowns

Deutsche Telekom revealed widely expected measures to reverse losses and deal with its huge debts. It will lay off 30,000 staff by 2004 as part of an attempt to save some *euro*10 billion ($9.3 billion) and prop up its ailing share price.

France Telecom ruled out a rights issue to raise cash and pay off part of its *euro*61 billion ($57 billion) debt mountain. The company told disgruntled shareholders that it had plenty of cash. France's government, which owns 54% of France Telecom, backed the decision. Legally it would have to take a significant share of any big offer to maintain control. French taxpayers breathed a sigh of relief.

Vivendi Universal, the troubled media conglomerate run by embattled Jean-Marie Messier, is to set up an oversight committee to monitor Mr Messier's plans to cut debt and boost a sagging share price. Mr Messer is still mulling a sale of a big chunk of Vivendi Environnement, the firm's water-to-sewerage arm.

Dissipating energy

Chuck Watson, chairman and chief executive of **Dynegy**, once Enron's smaller rival and would-be buyer, resigned after Dynegy had demonstrated that it too could become embroiled in financial scandal. Earlier, William McCormick resigned as boss of **CMS Energy**, another power trader. Both companies stand accused of artificially boosting revenues by the use of "round trips", swapping identical amounts of power with other firms but counting the proceeds as revenue.

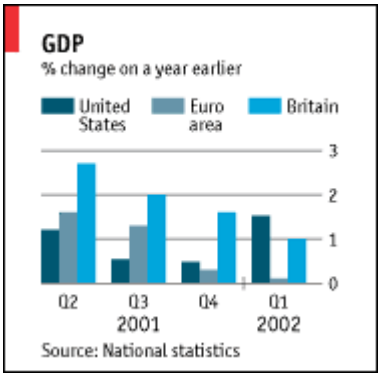
Russia's government saw one of its own appointed to the job of chief financial officer at **Gazprom**, the partly state-owned gas giant. Modern-day Kremlinologists will ponder the significance of Vladimir Putin putting his own man into a powerful position at the gas company.

Iran, a member of the "axis of evil" according to George Bush, is to re-enter international-capital markets. France's BNP Paribas and Germany's Commerzbank will organise a eurobond issue that could raise up to *euro*500m ($467m). Iran's central bank brushed aside Islamic laws proscribing usury.

Norwegian financial-services consolidation took a step forward. **DnB Holding**, Norway's biggest bank, announced that it would acquire **Storebrand**, the country's leading insurer for some NKr15 billion ($1.9 billion) in shares and cash. Cost savings through job cuts look certain.

Growing faster

Euro-area GDP grew by a sluggish 0.1% in the first quarter of 2002 compared with a year ago, after growing by 0.3% in the previous quarter. Europe's economies still seem mired by the effects of America's slump and September 11th. Revisions showed that Britain's economy grew by 1% in the quarter compared with a year ago but that it managed zero growth over the previous quarter.



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Pakistan

The weakest link

May 30th 2002
From The Economist print edition

Why the world needs Pakistan's dictator to survive, and how to rescue him

Get article background

Getty

SOMETIMES, the best form of defence is offence, and this week General Pervez Musharraf has been causing plenty of it. First, Pakistan tested its nuclear-capable missiles, including one that can reach most of India's large cities. Then, on May 27th, as India and the world waited to hear words of conciliation from a country which has brought its neighbour to the brink of war after a series of terrorist attacks on military and civilian targets, the general produced the opposite. He tried to put the boot on the other foot, blaming India's Hindu extremists for attacking Muslims in Gujarat and Kashmir (true but irrelevant), and denying, which is laughable, that there has been any infiltration by Pakistan-based militants into Indian Kashmir. India said the speech had merely made it angrier. So, then, did a further attack by militants on a police base.

The Osama connection

Much attention has been given to the frightening prospect of a nuclear war between India and Pakistan (see article). But even a limited conventional war could have the direst consequences. If Pakistan lost, and if losing toppled General Musharraf, America could lose a vital link in the war against terrorism. It was the general who severed Pakistan's ties with the Taliban regime in Afghanistan and so eased America's victory there. Now that most of the Taliban and al-Qaeda leadership is sheltering in Pakistan's unruly tribal areas, decapitating the terror threat depends on Pakistan being willing to root the fugitives out, or to let others do so. A post-Musharraf Pakistan, humiliated by India, might well swing the other way. Osama bin Laden would be only too happy to have exchanged a ramshackle haven in Afghanistan for a new one in a friendly, nuclear-armed Pakistan.

Fortunately, war may be less close than it seems. Senior Pakistani sources maintain that the general has already given orders for the incursions into India to be halted and rebel camps dismantled, and that the Americans have been enlisted to verify that this happens. On this account, the general's tough speech is a case of defiant rhetoric cloaking a hidden retreat. There is no doubt that the Americans are actively engaged: America's secretary of state, Colin Powell, is in almost daily contact with General Musharraf. All the Americans have to do is assure India that the Pakistani infiltration will cease; and to assure Pakistan that India will in return offer some form of concession—which could be as minimal as the opening of talks—on Kashmir. What it so impossible about that?

Plenty, from both sides of the equation. Take the Pakistani side first. Even if the general really does intend to rein in the militants, following this intention through is another matter. One problem is that his levers of power are loose. The militant groups have, since General Zia's time in the 1980s, been trained, armed and run by Pakistan's military, in the shape of the Inter-Services Intelligence agency (ISI). The ISI has always been something of a law unto itself: one former foreign minister says the civilian government of his time was never entirely aware of what it was up to. The ISI's field officers, out in the hills of Pakistani Kashmir, may not be as willing as the general is said to be to end the bleeding of India.

But a bigger difficulty is that the militants themselves are not fully under the control of even the ISI. Attacks such as the brazen one on India's parliament in December are almost certainly freelance affairs.

This problem has greatly worsened since General Musharraf's dumping of the Taliban. The Pakistanis who since the 1980s have fought alongside the *mujahideen* and the Taliban in Afghanistan are the same people who have fought India in Kashmir. Furious with General Musharraf for betraying them in Afghanistan, and perhaps now in Kashmir, the militants have every reason to seek to destabilise him. The several thousand al-Qaeda fugitives at large in north-western Pakistan would certainly want to help.

Even if the general does manage to shut off most of the militants' activity, how tolerant will India be if a few attackers get through? That will depend on what they do and where they do it. Attacks on military targets may be tolerable; attacks on civilian ones less so, while a substantial attack on civilians inside India proper will make war almost certain. India says it wants more than a mere absence of terror, though: the dismantling of the terrorists' camps and of the “infrastructure” behind them (which sounds like a demand for the abolition of the ISI), and the handing over of 20 wanted terrorists. Pakistan will not grant all that, but India might decide to settle for an end to the attacks. Pushing both sides towards some such compromise is a keen mutual awareness of the perils of escalation.

India must deliver, too

If America's good offices are to bring this about, India has to budge as well. The general's only chance of being able to deliver a cessation of violence lies in him being able to demonstrate that something is moving on Kashmir. Here, India's policy has been lamentable. It has never accepted that Kashmir is a subject fit for international mediation—indeed, it refuses even to accept what is obvious, that Kashmir is “central” to the dispute between the two countries. It has refused to allow Kashmiri leaders passports to travel to Pakistan to confer with Kashmiris there. It missed a valuable opportunity for a rapprochement with Pakistan after January 12th, when General Musharraf made a bold speech promising to crack down on extremism, and pledged that his country would not be used to support terrorism. Deprived of any reward from India, it is not surprising that the general's grip started to weaken.

India's underlying attitude, in short, has looked too much as though it believes that the status quo suits it fine and doesn't need to be changed substantially. Since the status quo has brought it to the brink of war, this is rash. What India should do now is to give the general some incentives, by promising that if he is seen to be cracking down hard for, say, the next two months, talks on Kashmir will be opened. An opportunity to do this will come next week, when both leaders are to attend a regional summit in Kazakhstan. Some sort of bargain seems to be in the air: the task is to bring it down to earth.

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Terrorist finance

Don't relax

May 30th 2002
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Rich countries must obey their own rules against terrorist financing

Get article background

AP

“THESE special recommendations will deny terrorists and their supporters access to the international financial system.” Thus, last October, with much fanfare, Clarie Lo, head of the Financial Action Task Force, the world's main anti-money-laundering body, announced eight new rules to tackle terrorist finance. The rules range from simple—criminalising the financing of terrorism, for instance—to more complex, such as requiring every transfer of money, both within a country and across borders, to carry complete information about the sender. The task-force said that it would treat its new rules as binding on all countries, not merely its 29 mostly rich members, and it laid down a bold deadline for compliance: the end of this month. After that, it planned to assemble a list of countries that still lacked adequate rules on terrorist financing; and, possibly, to impose counter-measures.

With only four weeks to go, where do matters stand? The embarrassing answer appears to be that not one of the G7 countries that set up the task-force has yet implemented all of the terrorist-financing recommendations. A few may just scrape by the end-month deadline, but many will not. If the main participants in the war against terrorism fail to follow the rules, there is little reason why worse-behaved countries should be fretting about possible sanctions.

This is bad news. As with the physical war against terrorists, the fight against their finances relies on international co-operation. Unless America and other targets of terrorism are ready to adopt such Draconian measures as a total ban on any cross-border banking business with large parts of the world, they will have to persuade other countries to be vigilant, in a way that they have never been before. Terrorists exploit the fact that conduits run between countries that apply widely differing levels of financial scrutiny (see article).

Show me the money

America made progress on some of its anti-terrorist-financing rules with last year's Patriot Act, which, among other things, stopped American banks opening accounts for offshore shell banks. But it has not yet ratified or fully implemented the 1999 United Nations international convention for the suppression of the financing of terrorism, which was the first proposal on the task-force's October list. Neither have Germany, Italy and Japan. Part of the reason for such foot-dragging is that countries have to respect their often lengthy and tortuous legislative processes. But part is obstruction within their finance industries. Banks, bureaux de change and other bits of the international payments system do not want the job of catching terrorists. And monitoring the vast number of money transfers that cross the world every day will come at a huge cost, both in financial terms and in loss of personal privacy.

Despite these drawbacks, however, most governments believe that cutting off terrorists' money—their lifeblood, as George Bush once called it—is a valuable, perhaps essential weapon in seeking to stop future attacks. That is why the G7 countries must set an example. For a start, they should all ratify and fully implement the UN convention, preferably by the end of June. A second priority is to require all financial intermediaries, not just banks, to report any suspicious transactions. The ways in which terrorists raise and move money are too various and too well-hidden to allow backsliding on the basic

steps that governments can take to combat them.

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Argentina's collapse

Let the voters choose their poison

May 30th 2002
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Eduardo Duhalde has shown himself too weak to administer the medicine his country needs

AP

Get article background

FIVE months have gone by since Argentina's Congress installed Eduardo Duhalde as the country's president, the third man (not counting two stand-ins) to have held that job in a fortnight. He inherited chaos: the world's biggest debt default, the collapse of a currency board which had pegged the peso at par to the dollar for a decade, an unremitting recession that began way back in mid-1998, a freeze on bank savings and an angry populace. Yet even given the gravity of that inheritance, by now it would be reasonable to expect to see the bones of an orderly economic programme in place, and some glimmers of future recovery.

Far from it. If anything, Argentina's plight is worse than it was in January. For ordinary Argentines, life is grim (see article). So far this year, the economy has shrunk by nearly 15% compared with the same period last year; consumer prices have risen by 21% since January (more than the official forecast for the year as a whole); the peso has plunged to almost 3.50 to the dollar; and international reserves have nearly halved, to just $10.5 billion. Unemployment has reached 24% and, in what was long Latin America's richest country, almost half the population has sunk into poverty. On top of all this, Mr Duhalde has not yet put in place the coherent economic programme demanded by the IMF.

Why so slow? Consider the events of the past fortnight. Last week, Mr Duhalde's new economy minister, Roberto Lavagna, claimed that the government would by the end of June meet the conditions the IMF had laid down for starting serious talks. Congress promptly jibbed at one of those conditions, the repeal of the “economic subversion” law, which has been used to harass bankers. So, for the second time in six weeks, Mr Duhalde threatened to resign. He withdrew his threat this week after provincial governors from his Peronist party once again promised to support the repeal of the law, and the fiscal and monetary measures requested by the Fund.

It may just be possible that the government will now proceed to cut a swift deal with the IMF. But daunting obstacles remain. Despite their promises, the bigger provinces show few signs of implementing the agreement they made in February to cut their fiscal deficits by 60% and cease paying their workers with funny-money bonds. The government meanwhile continues to dither over what to do about frozen savings and the ghostly banking system. Mr Lavagna's predecessor resigned last month after Congress, cowed by protestors, rejected a plan to turn the deposits into bonds. Mr Lavagna is at odds with the Central Bank over what should take its place.

The reason for all this indecision is that the president, the governors and the Congress are engaged in a political game in which each is trying to force the other to take responsibility for the unpopular measures needed to share out the costs of the devaluation. The game itself adds to those costs by shovelling blame and burdens onto the (mainly foreign) banks. The longer the politicians bicker, the closer Argentina edges towards hyperinflation and another explosion on the streets.

Facing reality and responsibility

This record suggests that even if Mr Duhalde does strike a deal with the IMF, he will be hard put to stick

to it. Nor, anyway, is the Fund likely to produce much money. The world has made it clear that it has no interest in helping Argentina's politicians to avoid the consequences of their own irresponsibility.

Plainly, no democratic politician relishes sacking public employees or confiscating voters' savings. But by shying away from tough decisions, Mr Duhalde is merely ensuring that Argentines will be poorer for longer. His supporters had claimed that, as a Peronist heavyweight enjoying the support of both main parties in Congress, he had the political strength to rescue Argentina. But he has proved to be a weak president. Although his election was constitutional, he lacks popular legitimacy. No good purpose will be achieved by his remaining in office until December 2003, as planned.

Opinion polls show that a majority of Argentines now want early elections, for Congress as well as the presidency. Mr Duhalde should organise them, and then step down. There is a danger that in their current mood Argentines might choose an even less reconstructed populist, in a continuing effort to avoid facing their harsh reality. So be it: that is their right. But their only chance of recovery is to have a government which has a rational economic plan, and the technical competence and political legitimacy with which to implement it. Mr Duhalde, lacking all of these, should go.

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The Middle East

Take the plunge

May 30th 2002
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Now is the time for America to push for a final settlement between Israel and the Palestinians

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SILENCING the doubters, Ariel Sharon's policy has proved a success. His aggressive response to Palestinian terrorism has gone a long way towards crushing the spirit of the *intifada*, denting the Palestinians' belief that they could, without destroying themselves and their cause, end Israel's occupation through armed struggle. It has also ended, at least for now, their limited experiment in self-government. Without reassuming the burden of military administration, the Israeli army is now once again the only authority that counts in the West Bank, and to a large extent in Gaza too.

But success is a treacherous business, and often short-term too. The squashing of the uprising in circumstances that allow for no glitter of political hope feeds despair—and suicidal action. The killing on Monday of two Israelis, including a baby girl, in a shopping-mall near Tel Aviv, was the latest in a series of actual and thwarted suicide bombings. On Tuesday, three Israeli students were shot dead in a settlement in the West Bank. Palestinians can move about the occupied territories, let alone enter Israel, only by grace of the Israeli army. But, however diligent the army, somebody can always sneak through.

And behind the killers is a sinister calculation: the belief that if the Palestinians allow calm to rule, nothing will be done to change their lot. From the airline hijackings in the 1970s onwards, violence has done at least as much as the world's sense of justice to keep the Palestinian cause high in the public mind. The groups that order the suicide bombings are unlikely, under no-hope conditions, to listen to the pleas, from Yasser Arafat now among others, to bring them to an end.

Yet the right-wing majority of the Israeli government, fundamentally opposed to the kind of change that would mean losing the West Bank, is keen to persuade outsiders, above all America, that matters should be left to Israel to sort out. The problems are indeed awful enough to have kept the Bush administration at a distance, intervening only when things were plainly getting out of hand, and then reluctantly.

The American-Saudi bargain

This may be changing. The rest of the world, and some parts of the American administration itself, see possibilities emerging from the unspoken bargain between George Bush and Saudi Arabia's Crown Prince Abdullah, that America shepherds Israel, and Saudi Arabia shepherds the Arab world, into a grand negotiation that results in Israel trading most of the land it seized in 1967 for peaceful acceptance by the Arab world. Some voices in the administration go further. On the principle that leading the two sides to water will still not mean drinking, they believe that Mr Bush should build on his declared “vision” of a Palestinian state by spelling out, in detail, the shape of a final agreement; and perhaps setting out a timetable for bringing such an agreement to fruition.

This is not yet the accepted American view. With an American public favouring Israel's current stand, many members of the administration believe that it would be wrong to force the Israeli government in a direction it evidently does not want to take. And there is now an excuse of sorts for not rushing ahead. Mr Sharon insists, and the Americans are inclined to agree, that the Palestinian Authority has to be reformed first.

The authority has been shattered by Israel's offensive and discredited by the confusion between its policemen and the *intifada*'s militiamen. This last the Americans take particularly seriously. George Tenet, the CIA's boss, is to be dispatched to the region to try to shake the authority's dozen or so security factions into one centralised force, and so revive the Oslo-dictated co-operation between Israeli and Palestinian security.

But it will be a very long time before Israelis trust Palestinian policemen to protect them. Mr Sharon, with his hatred of the not-quite-dead-yet Oslo peace process, will do his considerable best to frustrate Mr Tenet's endeavours. The answer, given the fever of distrust between Israelis and Palestinians, may well be the imposition of an international force, perhaps American-led, to take on the job of protecting both sides.

Mr Sharon, hoping to keep outsiders outside, advocates interim measures. But a prime lesson from the Oslo process was that its phased approach did not work. The years of working together were supposed to minimise the big problems at the end. In fact, the years bred suspicion, and the problems, in a final rushed attempt, were insurmountable. These were mistakes, not to be repeated. The difficulties remain enormous. But with the Arab world at one, the Palestinians chastened and Israelis aching for security, it is time to go for the gold.

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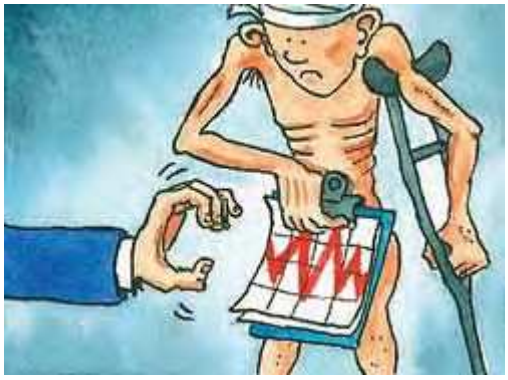
Medical records

Whose file is it anyway?

May 30th 2002
From The Economist print edition

Better ways to protect patient confidentiality are needed



MANY patients, if they think about it at all, cling to the comfortable notion that details of their most intimate bodily functions and dysfunctions are safely tucked away in a folder in their doctor's surgery. They also think the files can be shown only to trusted professionals concerned with their health.

Those patients are wrong. Today's health-care systems are so complex that patient information circulates widely, from doctors to hospitals to laboratories to pharmacies, and not just on paper but in electronic form as well. Such information interests more than patients and those directly involved in their treatment. Medical researchers rely on it. Insurers, employers and drug companies also want a peek, not always for honourable reasons. To clarify what is and is not allowed, legislators in America, Britain and elsewhere are busy ruling on who can see what, and in which circumstances.

Pro bono publico?

There are several questions that such rules should address. Is the proposed use of patient information necessary? Could the work be done using anonymised records? If not, can a patient's consent for the use of identifiable information be obtained? If this proves impossible, do the benefits to the patient or the public good outweigh the risks of unauthorised disclosure? It is not at all clear that these questions are being adequately answered.

In America, one proposal is to formalise the existing practice of handing over confidential patient information (including names and addresses) to companies that sell medical goods. Those companies can then send letters to patients advising them of new “treatments”. Fine, perhaps, if the ailment in question is a mild case of eczema. But how many people would feel easy with complete strangers knowing about their schizophrenia or AIDS?

Britain is not proposing to go as far as this. Its new rules concern the exchange of information for medical research, not for commerce. Nevertheless, they have worrying implications. The regulations will allow public-health authorities and academic medical researchers to use identifiable patient records without their consent, subject to safeguards (see article). Again, this is largely a codification of existing practice. But why, critics ask, when informed consent is required for treatment or participation in clinical trials, should patients not have the same say over how their information is used in public-health and medical research?

There is some justification. Public health is just that—studies and measures taken for collective benefit, whether now or (as in the case of research) in the future. Individuals are encouraged, and sometimes obliged, to give up a degree of personal autonomy to achieve a greater public good. In some localities, including many American states, children cannot attend school without having been vaccinated against a range of diseases. In this case the benefit to the community of keeping disease at bay is thought to outweigh the risk of ill effects to an individual child.

In the American case, the answer is clear-cut. Selling medical information without authorisation, so that those it refers to can, in turn, be sold goods, is wrong. It should not only be stopped, it should be made a criminal offence.

In Britain, the rights and wrongs are less clear-cut. Medical research requires the ability to track and collate information about particular individuals. Rarely, though, does it require researchers to know exactly who those individuals are. In principle, therefore, the answer ought to be easy: coded identification numbers, applying to all patient records, that can be decrypted only with authority and for good reason.

In practice, that will take time to achieve and may never be possible for existing records, even if it can be done for those created in the future. Legislation should set a strict deadline for encryption of future data, plus stiff penalties for abuse thereafter. In the meantime, the British authorities should enforce better notification of patients over how their data are being used and what safeguards protect them. There are good reasons why consent may not always be possible in public health, but there is none for public ignorance.

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Letters

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From The Economist print edition

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The OSCE in action

SIR – Your dismissal of the Organisation for Security and Co-operation in Europe as a "talking shop" is neither accurate nor fair ("Vladimir Putin's long, hard haul", May 18th). The OSCE is the world's largest regional-security organisation with 55 participating states from Europe, Central Asia and North America. The organisation works with governments and civil society in a practical way to promote security and co-operation. It has around 4,000 staff in 19 field missions in places as diverse as Bosnia, Georgia and Tajikistan. Work on the ground involves helping to build civil society and other activities, often specific—everything from organising and supervising elections to training police officers and prison guards, as well as defending free media and tolerance in inter-ethnic relations.

The OSCE has deployed hundreds of monitors from participating states at elections across the region through its Office for Democratic Institutions and Human Rights. Other OSCE institutions are engaged in similar pragmatic activities. Some 85% of the annual budget is spent on work of this nature, making a practical difference to the lives of ordinary people in troubled areas—hardly the work of a mere talking shop.

Jan Kubis
Secretary-general
OSCE
Vienna

Unreliable accounts

SIR – In your article on company accounts is a photograph of a dry cleaner's window with a sign reading "Special. Balance sheets, $1.25" ("Badly in need of repair", May 4th). As a former employee of a big accounting firm, I remember an inside joke that the CPA designation of certified public accountants actually stands for "cleaning, pressing and alterations".

Tom Virkus
Vandra, Estonia

SIR – Your assertion that confidence in financial statements is badly damaged will come as no surprise to ex-students of Professor Will Baxter of the London School of Economics. More than 30 years ago, he suggested that the proper answer to the question "what profit did the company make last year?" is "what figure did you have in mind?"

David Marks,
Puymaurin, France

Under the skin

SIR – Bagehot (April 20th) mentions "William Hague's xenophobic skinhead-tendency Conservatism." As both a skinhead and long-time subscriber to *The Economist*, I resent your assertion that all skinheads are xenophobic. There are many types of skinhead. Admittedly, there are right-wing nationalist and neo-Nazi skins but also there are skinheads who openly oppose prejudice, not to mention anarchist skinheads and gay skinheads. When you next use "skinhead" to mean a right-wing racist, remember your skinhead

subscriber.

Strider Pineo
Boston, Massachusetts

He's no Dutchman

SIR – Did the author of the survey on the Netherlands (May 4th) ever set foot in the country? He has certainly never used Dutch trains. Why else would he describe them as “reliably on time”? He has definitely not visited a doctor or dentist either (difficult anyway, as most do not take on new patients and have waiting lists of up to a year). And describing Dutch trams as “efficient and cheap” is way off-track unless perhaps compared with Britain's public-transport system.

Kilian Strauss
The Hague

SIR – You allege that “the Netherlands dragged its feet over the invocation of NATO's Article 5 after September 11th.” This is wrong. The invocation of Article 5 had the wholehearted support of the government of the Netherlands.

Bart Jochems
Spokesman to the minister of foreign affairs
The Hague

SIR – You state that the Netherlands established the world's first central bank. The Dutch central bank, established in 1814, was preceded by, among others, the Bank of England, established in 1694. The world's oldest central bank is that of Sweden, Svenska Riksbanken (originally Riksens Ständers Bank), established in 1668.

Anders Peterson
Scotts Valley, California

A rater writes

SIR – Your article on rating agencies mischaracterises the role that Standard & Poor's plays in the capital markets (“Badly overrated”, May 18th). Your point on our analysis of collateralised-debt obligation (CDO) needs clarification. It is in response to investor-driven demands that we prepare objective research reports on management's experience of managing a complex CDO structure, and all our credit ratings include an assessment of management. Therefore, you misstate our role—we provide information to investors but not endorsements of any products.

We are strong advocates of multiple sources of research. Ultimately, however, the value of that research is determined by investors and not by financial regulation. Issuers would not seek ratings if investors did not value them. At no point in Standard & Poor's history has there ever been a hint of conflict of interest in our rating decisions. We have strict rules for our rating process to obviate that risk. We believe that this distinguishes us from the prevailing practice on Wall Street—a point you neglect to make.

Vickie Tillman
Executive vice-president
Standard & Poor's
New York

Tax farming

SIR – The latest OECD report on agriculture (published on June 6th) states that despite “some progress in agricultural policy reform, it has been slow, variable, and insufficient.” Since that report was written a new American farm bill, which you strongly criticise, has been signed into law (“Dangerous activities”, May 11th). You note that agriculture is more protected in the EU than America. However, you say “a decade ago over 90% of Europe's farm subsidies were highly trade distorting. But in 2000 the EU spent only around 20% of its total support for farmers in this way.”

The OECD “producer-support estimate” includes market-price support paid by consumers as well as

budgetary payments paid by tax payers. For the EU, it shows that the share of the most production and trade-distorting support (market-price support, output payments and input subsidies) decreased from 96% on average in 1986-88 to 72% in 1999-2001. In comparison, the respective shares for America were 70% and 67%.

Stefan Tangermann
Director for agriculture
OECD
Paris

Middle-class hero

SIR – Not all of us urban planners “think the future lies in sprawling suburbs”, and certainly not when it comes to breeding grounds for new superheroes (“Heropolis”, May 18th). One only needs envision “Suburban-Man”, whose inevitable tasks would include little more than rescuing cats from trees and using his super-driving skills to squeeze sport-utility vehicles into mall parking spaces.

Eric Plosky
Cambridge, Massachusetts

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Europe and America

Old friends and new

May 30th 2002 | BERLIN, MOSCOW, PARIS AND ROME
From The Economist print edition

AP

Where does George Bush's visit to Russia and Europe leave transatlantic relations?

IT WAS his first trip to Europe since September 11th, his first ever to Russia, France or Germany and his first since the usual transatlantic backbiting reached new levels of sourness after his “axis of evil” speech in January. Yet, to the casual eye, George Bush hardly went out of his way to make things better.

At a press conference in Paris, he announced to the crowd that he had heard French food is good (Jacques Chirac, he said, had exclusively revealed this to him). Touring the Kremlin's Cathedral Square, his attention-span lasted about ten minutes; at the Hermitage in St Petersburg, the largest museum in the world, it lasted about fifteen. When an American journalist had the temerity to ask President Chirac a question in French, Mr Bush mocked him for showing off by speaking the language of the country he was in. All in all, not a performance of the sophisticated sort Europeans would prefer from the man in whose hands the fate of the world lies.

Yet, beyond the personal behaviour, the subdued anti-American demonstrations and the occasional mutual incomprehension, Mr Bush used his trip to outline a policy change that flies in the face of received wisdom about American unilateralism. It is a serious and potentially significant attempt to revitalise the main transatlantic institution, the North Atlantic Treaty Organisation. If it works, it could help to put transatlantic relations on a new basis, rather as Mr Bush's policy has already done with Russia. That is, if it works.

To see the significance of what is happening, go back to Mr Bush's first trip to Europe, a year ago. He had just announced that America would pull out of the Kyoto accords on climate change and wanted to move beyond the anti-ballistic missile (ABM) treaty with Russia. Euro-complaints about what France's foreign minister dubbed the “hyperpower” were rife. Yet at a summit with President Vladimir Putin in Slovenia, against the majestic background of the Julian Alps, the two men declared that fears of a new era of confrontation were misplaced, and promised they would work towards deep, parallel cuts in offensive nuclear weapons. Few people were sanguine.

Fast forward to this week. Complaints about everything from steel tariffs to the axis of evil are rife. America's withdrawal from the ABM treaty is about to take place. Yet, against the majestic background this time of the Kremlin's gilded throne room, the two presidents confounded predictions that the rejection of the ABM treaty would start a new arms race by signing an agreement reducing long-range nuclear warheads by two-thirds over ten years. Later, in the less gilded surroundings of an Italian

airforce base, they joined the rest of NATO's leaders in signing a pact setting up a new Russia-NATO Council. Together, these two agreements help to draw Russia close to the West—a remarkable achievement in only a year.

And this time, as in Slovenia, Mr Bush announced a policy shift that surprised the pessimists. Declaring that rumours of the transatlantic partnership's death are much exaggerated, Mr Bush said he wanted NATO to play a central role in the war against terrorism. Scepticism about Russia proved to be exaggerated last year. Might scepticism about Europe be now?

The main reason for optimism is that the administration seems at last to have resolved an important difference over NATO. In his speech commemorating America's D-day losses on the Normandy beaches, Mr Bush re-affirmed that “our security is still bound up together in a transatlantic alliance, with soldiers in many uniforms defending the world from terrorists.” It was his clearest statement yet linking American security, the war on terror and Europe.

In his speech to Germany's Chancellor Gerhard Schröder and the members of the Reichstag in Berlin five days earlier, the president had taken aim at those, including some of his own officials, who say that the September 11th attacks make NATO irrelevant. “NATO's defining purpose, our collective defence,” he proclaimed, “is as urgent as ever.” And he called again for changes in the military resources of the alliance to match its new role: “NATO needs a new strategy and new capabilities.” Bromides about NATO are one thing; repeated demands to spend real money on new equipment suggest America may be committed to this “new strategy”.

Breaking NATO's bounds

European governments seem committed too, at least to judge by a meeting of NATO foreign ministers in Reykjavik two weeks before. In surprisingly straightforward language, the ministers said that “NATO must be able to field forces that can move quickly to wherever they are needed. This will require [new] capabilities within the Alliance, including strategic lift and modern strike capabilities, so that NATO can effectively respond collectively to any threat of aggression.”

It is worth parsing that statement. Consider “collectively”. NATO invoked its mutual-defence article on September 11th (which says an attack on one member is an attack on all). Even so, no one has been clear how the alliance might actually be involved in fighting terrorism. Few NATO soldiers took part in the first fighting in Afghanistan. Even now, when a dozen NATO countries have sent troops, the alliance itself—that is, its command structure and organisational capacity—has not been involved. So a call to involve the organisation “collectively” implies a change in the alliance's use, something Mr Bush went out of his way to support.

Now consider the phrase “wherever [forces] are needed”. For the past few months, politicians on both sides of the Atlantic have been arguing about where NATO troops should serve. After September 11th, some alliance commanders talked of “going global”. They wanted an expansive definition of NATO's role, which has anyway begun to creep beyond its old borders since its involvement in the war in Kosovo.

Reuters

With Gerhard

But some traditionalists in Europe were reluctant to invoke the mutual-defence article in Afghanistan, so far beyond NATO's borders. They feel alliance troops should remain where they have always been—in Europe. Any other mission would be a distraction from the most important job, defending the continent. In America, many conservatives have come to the same conclusion by a different route. They think NATO is a fair waste of time anyway, but do not mind so long as it sticks to its last in Europe and does not distract from the most important job, fighting the war on terror. Either way, neither of these groups wants NATO to act “out of area”.

That is precisely what the American administration now says it wants NATO to do. Its officials claim the “out of area” debate is over and the expansionists have won. The same point has been made in Europe, too, by German and British officials among others. NATO now has the authority to act wherever there is a threat to any member. The only question is how it acts—with what weapons, and with what command structure.

That is hardly trivial, of course. But considering how much sniping there has been across the pond lately, what has been decided should be seen as a serious attempt by the Bush administration to find a new basis for transatlantic agreement on security. The question now is what follows.

For a sense of what can be done to improve ties if countries really set their minds to it, consider America and Russia. The treaty to cut each side's nuclear warheads by two-thirds, to 1,700-2,200 over the next ten years, matters less for its own sake than for its contribution to a broader sense of progress. Both sides had reasons to reduce their nuclear stockpiles anyway. The real significance of the treaty is what came with it—the NATO-Russia Council—and what it may lead to.

As part of the deal with NATO, Russia and America will co-operate in America's plans to build missile defences once the ABM treaty is scrapped in June. Russia could be involved in NATO's counter-terrorism activities—something that might give more substance to the alliance's future role in the war on terror, given the importance of Russian intelligence to that operation. And the Russia-NATO council might be involved in helping Russia restructure its armed forces through a joint training centre, a striking example of willingness in Russia to engage with NATO even in sensitive areas.

Relations have improved to the point where they have survived a continuing disagreement about Russia's transfer of nuclear technology to Iran (see article). They have passed the test of Russia's continued opposition to NATO's enlargement, which is due to take place later this year. Yet one should not go overboard about the George and Vladimir show. Mr Putin's own assessment of the summit in Moscow was more cautious than the breathless American accounts of a “breakthrough in trust” between the two sides. Yuri Baluyevsky, Russia's chief negotiator in the strategic arms-reduction talks, commented that “perhaps these words about friendship and even an alliance in the longer term stemmed from emotion. Time will tell.”

On the Russian side, better relations with America rest partly on Mr Putin's calculation that he needs a period of stability in foreign policy while he seeks to build up the Russian economy, and partly on his skill at extracting a quid for quos he had to concede anyway. Since Russia matters to America because of its nuclear weapons, its ties with the axis of evil countries and its large energy reserves, America was willing to pay a price for Mr Putin's acquiescence in scrapping the ABM treaty. In other words, the improved relations rest on mutual convenience. They are also, as yet, unsupported by much substance. Russia has much to do, both economically and politically, before the new rapprochement with America can be counted a success. Yet the will is there to grasp the opportunity.

Europe's misgivings

By contrast, America's relationship with Europe—expressed not just in NATO but through a multiplicity of trading, investment and intelligence ties, as well as common values—is undoubtedly substantial. Yet mutual suspicions persist, and this visit has not entirely assuaged them.

In Rome, wrapping up the visit, Colin Powell, the secretary of state, characterised the administration's approach to Europe as follows. President Bush, he said, “speaks clearly, he speaks directly and he makes sure people know what he believes in. And then he tries to persuade others that is the correct position. When it does not work, then we will take the position we believe is correct and I hope the Europeans are left with a better understanding of the way in which we want to do business.” So there.

Even when it comes to NATO's supposed new role, doubts persist. The “out of area” debate may be settled. But argument continues within the administration about exactly what that means. Donald Rumsfeld, the defence secretary, speaks for many in the Pentagon when he says he will not let NATO's involvement degenerate into war by committee. The Pentagon is still fuming about Kosovo, when targets were selected according to a lowest common denominator because other NATO countries could not always agree.

AP

American officials privately make it clear that, whatever the alliance's role may be, it will not include Iraq. At present, America is attempting to tackle that case through diplomatic means. If those fail, it may well take unilateral military action. Mr Bush has emphasised, and did so forcefully again in his speech in the Reichstag, that America will use any means at its disposal to deal with proliferators and to conduct the war on terror. It will, he said, consult with its allies and friends. But even if the administration is committed to boosting NATO, that will not necessarily imply a turn towards

multilateralism more broadly. America will do whatever it takes and use whatever it must.

With Vladimir

On the European side, much reluctance comes down to money. It has long been obvious that if NATO is to have a real role in the war on terror, Europeans will have to spend a lot more. They need more transport planes to move soldiers long distances outside Europe; more and better precision-guided missiles; better communications, better air-to-air refuelling, better everything. Hence Mr Bush's demand in Berlin that NATO modernise itself.

The trouble is that at the same time, Joschka Fischer, Germany's foreign minister, made it clear that Europe's largest economy, for one, is not about to spend more on defence. Mr Fischer argued that Germany already spends huge amounts on security, broadly defined—not through military spending, where Germany lags far behind America (as does every other western country) but through economic reconstruction in Eastern Europe. The so-called “capabilities gap” yawns as wide as ever, and unless it narrows, Mr Bush's new strategy for NATO will fall right into it.

At the end of his second European tour, scepticism should be the order of the day. It is fair to say that the Bush administration has created an opening for better transatlantic ties and a chance to rescue NATO from the doubts that have surrounded it since the end of the cold war. The president deserves some credit for that.

But it is equally fair to say that both sides show a certain ambivalence about closer ties in the war against terror. That does not mean transatlantic improvements cannot happen. But they are likely to prove messier, less dramatic and more dependent on external events (like another terrorist attack) than either side would ideally hope for.

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Anti-proliferation wrangles

Cleaning up

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From The Economist print edition

New challenges for Americans, Europeans and Russians

WHEN it comes to the proliferation of weapons of mass destruction, prevention is more cost-effective than cure. Although it made few headlines on George Bush's European tour, the effort to prevent rogue regimes or terrorists from getting hold of nuclear, chemical or biological materials was high on his agenda.

For a decade America has worked with Russia to help secure and dismantle the vast stockpile of such weapons left by the former Soviet Union. So far these Nunn-Lugar funds, named after the two American senators who first thought up this threat-reduction programme and currently running at about $1 billion a year, have eliminated some 5,800 of Russia's nuclear warheads, destroyed delivery systems, improved security at around half the sites where weapons materials are stored, helped build a new state-of-the-art fissile-materials storage plant and provided gainful employment for thousands of former weapons scientists who might otherwise have hawked their skills on the black market. Yet much remains to be done.

American officials are already working with the International Atomic Energy Agency to heighten international awareness of the need to secure all nuclear materials. As Mr Bush left Moscow, the Nuclear Threat Initiative, a private American charity, launched a campaign to persuade the American and Russian governments not only to increase the pace of such efforts in Russia but also to lead a global campaign. A recent report by a Harvard University project, Managing the Atom, pointed out that there are some 20,000 kilograms of highly enriched uranium (less than 20kg is needed for a bomb) spread across hundreds of research facilities in scores of countries, along with even larger quantities of separated plutonium from civilian nuclear reactors.

But the biggest problem is still in Russia. The Harvard team suggests speeding up a project launched in 1994 to purchase 500 tonnes of highly-enriched uranium released from Russian weapons and blend it down over 20 years for use in civilian reactors. Paying the Russians to do the blending down faster but to store the extra reactor fuel, say the researchers, would get the job done more quickly and without flooding the civilian uranium market.

The Harvard study also unfavourably compares the $1 billion or so the Bush administration spends on threat-reduction efforts in Russia with the $38 billion it allocates for homeland security. Mr Bush's officials prefer to compare their effort with the paltry sums the Europeans contribute to the Russian clean-up. Mr Bush discussed with Germany's chancellor a programme he calls “ten-plus-ten-over-ten”: $10 billion from America, $10 billion from the rest of the G7 rich countries collectively, over ten years, to help secure Russia's surplus weapons materials. There are ideas too for swapping some of Russia's foreign debt for a faster clean-up.

Yet obstacles remain. Russia's failure to come fully clean about its chemical and biological programmes has led to delays in disbursing some Nunn-Lugar funds. Then there is Russia's nuclear co-operation with Iran. In 1992, Russia agreed to complete a nuclear reactor at Bushehr which had been abandoned by German companies. America fears that even with safeguards on the reactor itself, the project is a cover for Iran to seek other help—especially uranium-enrichment technology—for its covert nuclear-weapons programme. Russia's president, Vladimir Putin, insisted this week that Bushehr would go ahead. But there is growing resistance in Congress to spending on anti-proliferation measures in Russia, when Russian firms profit from helping a country that is near the top of the proliferation worry-list.

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The economy

Why no longer so alluring?

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Investors are intriguingly wary of America's recovery

Get article background

A FEW years ago, America was reputed to have a charmed economy. Thanks to the productivity miracle, output grew fast enough to push unemployment to historic lows without fuelling inflation. From across the globe, investors could not get enough of this magical state of affairs.

In many ways, today's economic recovery is equally alluring. Despite the bursting of the stockmarket bubble, last year's collapse of corporate investment and the terrorist attacks, the recession has been remarkably short and mild. The economy surged in the first three months of 2002; productivity growth remains extraordinarily strong; consumers remain resilient; corporate profits, as measured in the national income accounts, are showing signs of life, and inflation is nowhere to be seen. Yet investors are unimpressed. Share prices have been lacklustre, and the dollar this week reached a 14-month low against the euro. Why has America's economy lost its power to charm?

The obvious explanation is that the economic outlook remains uncertain. Certainly first-quarter GDP growth—5.6% at an annual rate, according to revised figures released on May 24th by the Commerce Department—was unexpectedly strong. But much of that surge was driven by temporary factors, particularly a reduction in the pace at which firms slashed their inventories. Between January and March, this inventory adjustment added a hefty 3.5 percentage points to annualised GDP growth. Although the inventory cycle still has some way to go, and may add 1.5 percentage points to second-quarter GDP growth, inventory adjustment is incapable of being a sustained source of growth.

The broader outlook for corporate investment is still murky. The good news is that firms' profits appear to be on the mend, boosted by radical cost-cutting coupled with strong productivity growth. Higher profits should bode well for future investments. The bad news is that profits are paltry compared with their pre-recession peaks, and that by most measures America's firms still have plenty of spare capacity. In the short term, few expect investment spending to offer much of a boost to the overall economy.

That leaves the onus where it has long been—on the American consumer. Contrary to the fears of many pessimists, consumer spending has yet to peter out. Consumption rose by a monthly 0.5% in April, less than many predicted, but perfectly consistent with a moderate recovery. There is little sign that Americans have, as yet, lost their appetite for ever more big-ticket purchases. Motor vehicles (which

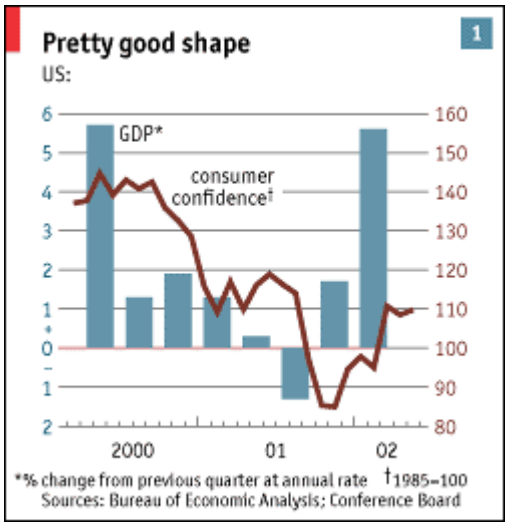
almost single-handedly sustained consumption at the end of last year) sold even faster than their first-quarter average in April. And according to one dealer survey, they are running 7% higher in the first two weeks of May than in the same period last year.

For the economy to fall back into recession, consumption would have to collapse dramatically. And there are few signs of that. According to the Conference Board, the consumer-confidence index rose in May to its second-highest level since the September 11th attacks (although by slightly less than Wall Street expected). Though financial markets are lacklustre, consumers' balance sheets are still buoyed by a booming housing market. Sales of existing houses rose sharply in April, and the price of the typical American house is up 7% from a year ago.

For the economy to fall back into recession, consumption would have to collapse dramatically. There are few signs of that

Americans' incomes are still rising, albeit more modestly than they were earlier this year. The labour market still looks weak—the unemployment rate, at 6%, is at an eight-year high, and, despite the robust growth, in the year so far almost 100,000 jobs have been lost. But for those in work there has been no income collapse. Despite the recession, pay packets have held up surprisingly well, and tax cuts have also added to Americans' spending power.

That could change. For pessimists, the prospects of a double-dip recession hinge on further weakness in labour markets. Many make comparisons with the “jobless” recovery of the early 1990s. Stephen Roach of Morgan Stanley, for instance, foresees big job losses in middle and senior management, as firms try to slim down what he sees as bloated executive ranks. Others point out that wage growth looks increasingly sluggish. Optimists, in contrast, reckon preliminary evidence suggests that hiring may be about to take off. Economists from J.P. Morgan, for instance, point out that employment of “temporary” workers, which often presages employment trends for permanent jobs, has risen sharply in recent weeks.



Another, though much smaller, component of GDP growth remains indubitably on an upward trend: government spending. Along with inventory adjustment, government spending buoyed first-quarter GDP, and it shows little sign of disappearing. According to economists at Goldman Sachs, discretionary government spending is running 10-15% above last year's levels.

Taken together, this evidence leads most economists on Wall Street to conclude that the most likely scenario is continued growth, albeit at a more moderate pace than in the first quarter. So why are investors, and particularly foreigners, in such a funk?

One reason has less to do with immediate economic prospects than “Enronitis”—the shrinking of investor confidence in American capitalism in the wake of Enron and subsequent corporate scandals. As the roster of dodgy accounting extends from Xerox to Global Crossing, investors' faith in American firms has taken a sharp knock. Dashed expectations also play a role. A moderate economy is not what financial markets were betting on earlier this year. As output surged, Wall Street assumed that fast growth and fat profits were round the corner.

Finally, with investor confidence weakened and with economic performance moderate rather than exceptional, economic weaknesses (long ignored by investors) loom larger. In particular, America's enormous current-account deficit—set to reach 5% of GDP this year—has risen sharply on the radar screens. Although economists long argued that America's current-account deficit was unsustainable and the dollar too strong, foreigners' confidence in the economy kept both going. Now that foreign sentiment appears to be turning negative, one of the biggest risks to America's economic outlook is a sharp adjustment. For many Wall Street economists, a sudden dollar collapse is the biggest threat to the recovery, aside from a terrorist attack or another oil shock. It is a cruel irony that if foreigners give up on America too quickly, they

will ensure that the charmed economy disappears.

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Human trafficking

A cargo of exploitable souls

May 30th 2002 | CHICAGO
From The Economist print edition

In the country as slaves, without money or papers

AP

At last, the land of the free

AMERICA, a “prime tourist destination”, is also a prime destination for much less happy people. One group, impoverished young girls from Mexico, was found earlier this year in a suburban house in New Jersey. They had been lured from their home towns by an international trafficking ring, smuggled to the United States and forced into prostitution. The victims, who were beaten if they resisted, sold their bodies to customers for as little as $35.

Trafficking is distinguished from mere immigrant-smuggling by the degree of coercion, deception and exploitation. Every year, on State Department estimates, about 50,000 people, the vast majority women and children, are forcibly trafficked into the United States from all over the world—Eastern Europe, Asia, Central America, Africa. Once there, most victims disappear among the 8m or so other illegal immigrants in the country. They are forced to work as virtual slaves, for the traffickers' profit, in the sex industry, on farms and in factories. The victims, who rarely speak English, exist in a sort of parallel universe with no money, no documents, the threat of beatings and limited contact with anyone but their keepers and other victims.

Since the passage in 2000 of the Trafficking Victim Protection Act, pioneered by Congressman Chris Smith, both investigations and prosecutions have been stepped up. The Department of Justice had 111 investigations of human trafficking open in mid-May, a 50% increase over the year before. In fiscal 2001 the department prosecuted 34 traffickers, four times as many as a year earlier. Those convicted of trafficking may now receive up to 20 years in prison and, in some cases, life sentences. In early June, the Justice and State Departments will open a joint centre, involving members of the FBI, the CIA and the Coast Guard, to gather and give out information about the trade.

The State Department has also created a new class of visas especially for victims of trafficking. Five thousand of the so-called T-visas will be available each year to victims who provide information to the authorities, allowing them to live and work in America while their cases are investigated and prosecuted. Previously, trafficking victims who came forward were deported as illegal immigrants.

America's anti-trafficking efforts extend overseas. The State Department's first annual human-trafficking report, issued last summer, was especially critical of 23 countries—among them Israel, Greece, South Korea, Russia and Pakistan. They, in turn, were upset at being singled out, but Mr Smith is delighted. “We got a lot of backlash, but I'm glad they're upset,” he says. “Friends don't let friends commit human-rights abuses.”

Under the 2000 act, countries have until mid-2003 to show progress in combating trafficking, or risk the loss of non-humanitarian aid from the United States. The State Department's second annual report, to be released in June, shows that this threat has already had the desired effect on South Korea, Israel and Romania. But according to Nancy Ely-Raphel, the senior official dealing with trafficking, other countries, such as Saudi Arabia and Lebanon, “still don't acknowledge they have any problem at all.”

The brains behind trafficking operations—known as “snakeheads” in Chinese smuggling networks—also remain beyond the reach of American authorities. As long as there is an unmet demand for cheap labour and prostitutes, traffickers will have every incentive to prey on victims. And foreign women and children are not the only ones at risk. An estimated 400,000 children are victims of prostitution and other forms

of commercial sex in the United States. The vast majority of them are Americans, including many blue-eyed blondes from the mid-west.

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Nuclear waste

An atomic Augean stable

May 30th 2002 | SEATTLE
From The Economist print edition

AP

Progress is at last being made at America's dirtiest nuclear patch

THE Hanford Nuclear Reservation was conceived in haste. It was built in a few months, in 1943, to make nuclear fuel for the first atomic bombs. In the mid-1980s it was shut down fairly rapidly when cold-war changes rendered it superfluous. But cleaning up this 564-square-mile (1,461- square-kilometre) site in a corner of Washington state has not been swift. After 13 years and $35 billion, Hanford, though getting safer, is still arguably the most dangerously polluted piece of North America.

Its problems include radioactive waste leaking out of concrete tanks, radioactive groundwater seeping towards the Columbia River, and giant pools filled with spent fuel rods and various other bits of nuclear litter. Two years ago British Nuclear Fuels—the latest in a long line of contractors—was fired from a big part of the job, after costs for that portion rose from an estimated $6.9 billion to more than $15 billion.

Now things have brightened a bit. A new team of contractors, led by Fluor and Bechtel, claims that over the past two years most of the leaks have been patched in the 177 underground concrete tanks that keep radioactive waste. The tanks, built in the 1950s, were supposed to last only a couple of decades; they have been kept in service partly by adding chemicals that were supposed to stabilise the gunk, but may have made it more volatile.

The worst waste, about 3% of the total, will have to be “vitrified”—turned into glass—and then moved to permanent storage in Nevada or elsewhere. This summer, work will begin on a $4 billion vitrification plant, which will go into action in 2007. The less harmful bits of waste will undergo a new steam-cleaning process and be made into a stable, granular form, similar to cat litter; this will then be encased in concrete and moved to Nevada.

Another dicey project, now half-way to completion, is to lift some 2,000 tonnes of spent fuel from two pools. Conveniently sited about 400 metres from the Columbia River, the pools have leaked some 15m gallons of contaminated water. Many of the fuel rods in the pools were not supposed to be put in water. So far, around 14% of them have been removed; by the end of the year, 50% should be. In theory, by 2004 the fuel will all have been moved to a permanent home at Yucca Mountain, in Nevada.

There are other signs of progress. Workers have removed about a third of the 10m tonnes of contaminated soil. The plutonium-finishing plant, where the bomb fuel was finished into small, button-like bits, is in the process of being cleansed, though around four tonnes of the deadly material remain. One of the nine nuclear reactors on the site has been dismantled. And engineers have installed sub-surface chemical “walls” designed to trap radioactive chromium that is creeping beneath the ground

towards the Columbia River.

There are hopes that a process supposed to last nearly 50 years will now be largely completed by 2012. But that is not total success. Even if all goes according to schedule, in 2012 two undismantled nuclear reactors will remain on the site, and the vitrification plant will have another 15 years of processing to do. Things could yet go wrong: the steam-cleaning process, for instance, is unproven on this scale. And plenty of people still snipe at the government's idea of “clean” and “safe”.

Gerald Pollett, director of Heart of America Northwest, which has been criticising the Hanford clean-up for 15 years, labels as “ridiculous” the idea that leaving some radioactive waste in the 177 concrete tanks and then filling them with grout or concrete can ever be really safe. He is also suspicious of the steam-cleaning business, the aim of which, he says, is just to avoid the cost of vitrification. And he thinks that a speedier clean-up will be possible only if the Department of Energy reclassifies its definition of what constitutes waste. At public hearings held on May 23rd, a citizen oversight group found the department's zest for speed “alarming”.

Given the jump forward in the past year or so, such suspicions may seem grudging. But so far at Hanford the cynics have usually been right.

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Plutonium shipments

The hottest convoy

May 30th 2002 | COLUMBIA, SOUTH CAROLINA
From The Economist print edition

Two elections hang on shifting plutonium around

HE WILL lie in the road himself to stop them, he says. Jim Hodges, South Carolina's governor, is that determined to block federal plutonium shipments to the Savannah River nuclear-waste site. State troopers have already been rehearsing, in front of the TV cameras, exactly how they mean to turn back the trucks.

The first shipment of 34 tonnes of weapons-grade plutonium (part of the cache that the United States and Russia each agreed to take from their warheads and decommission at the end of the cold war) was due to leave the Rocky Flats nuclear facility in Colorado on May 15th. At Savannah River, it is meant to be converted into fuel for use by power plants. But Mr Hodges, a Democrat running for a second term in November, wants a firm agreement that the plutonium will not remain in South Carolina permanently. He is also suing the Department of Energy, claiming it ignored proper environmental procedures in its plan for storing the plutonium. On May 9th, the Department of Energy agreed to delay the shipments, and hearings will start on the governor's lawsuit on June 13th.

The Savannah River site, built in the early 1950s to make most of the plutonium used in America's nuclear weapons, already has 37m gallons of liquid high-level nuclear waste stored in underground storage tanks. Those tanks are corroding and leaking. Fifteen years ago, a local newspaper reported that some streams near the plant had more than 750 times the limit of radioactivity allowed for drinking water.

Although he is doing well at present, Mr Hodges will probably lose his fight eventually. The federal government nearly always wins such stand-offs, and the Department of Energy has characterised the governor's threats as “political grandstanding”. Still, his posturing is popular with many South Carolinians, who resent being the nation's principal dumping ground for nuclear waste. And Mr Hodges may be hoping to mend fences with the state's health-care workers, who are outraged that he scotched in April a plan to fully fund the state's budget for Medicaid, the federal/state health scheme for the poor, by raising the tiny cigarette tax.

The tale has one more twist. Might the shipments be aimed at enhancing the re-election prospects of Senator Wayne Allard, a Colorado Republican who is running on his efforts to rid his state of plutonium? Democrats think so. Keeping Mr Allard in the Senate, they say, is crucial to Bush administration hopes of regaining a Republican majority there. Even if the plutonium begins moving this spring from Colorado, it will sit in storage at Savannah River at least until 2007. So what's the rush?

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Remaking towns

After coal, tourists

May 30th 2002 | MATEWAN, WEST VIRGINIA
From The Economist print edition

And Hatfields, McCoys and all-terrain vehicles

IT MAY be a town of only 500 people nestled in an isolated corner of Appalachia, but Matewan, West Virginia, has witnessed a great deal of history. From the 1860s to the 1890s, the rival Hatfield and McCoy clans waged America's most infamous and intractable family feud there. Then, early in the next century, the town became a focus of attempts to unionise the coal mines. On May 19th, 1920, labour organisers came face to face with private detectives hired by the coal companies. Ten people, including the mayor (a union man) died in a shoot-out, on the Norfolk & Western railroad tracks downtown, that came to be known as the Matewan Massacre.

Reduced to a street sign

In 1987, when the massacre was made into the film “Matewan” by John Sayles, the town suddenly became proud of its history; and embarrassed that the film had been shot in another town, half-way across the state, because Mr Sayles did not think Matewan looked old enough. Since coal output has been declining for years—despite the coal-trains that rumble through town several times an hour—the town decided to preserve itself, accentuate its history, and try to attract tourists.

Soon after the film was released, the area's main coal company, Massey Energy, helped establish the Matewan Development Centre, a quasi-official economic-development group. The MDC began by restoring the town's appearance, to such a degree that Mate Street, the main downtown thoroughfare, now looks much as it did in the 1920s. Local politicians, led by the state's legendary senator, Robert Byrd, also convinced the Army Corps of Engineers to build a 2,350-foot-long floodwall (now decorated with scenes from Matewan's history) to protect the town from the ravages of the Tug River. In early May, the wall saved the town from floods that damaged its neighbours.

The town holds a number of historical re-enactments, including one of the massacre and a four-day Hatfield-McCoy reunion, held jointly with the nearby towns of Williamson, West Virginia, and Pikeville, Kentucky, which culminates in a tug of war. The original passenger-train depot is being rebuilt, and the Hatfield-McCoy Trail System, a network of old logging and coal trails, has been opened to the public. The trails are geared towards users of motorised, all-terrain vehicles, who are then encouraged to ride them into town to patronise the bars and shops.

Matewan remains remote, down a road so dangerous for ten miles or so that tour buses will not risk it. (The MDC wants to buy a small passenger van to ferry people in and out.) Moreover, the town has no hotels, and efforts to establish one have proved fruitless. Extending the so-called Coalfields Highway to Matewan could help, but no one knows when, or whether, that will happen.

Still, local officials understand that tourism, for better or for worse, is Matewan's main hope for the future. Two decades ago, few would have predicted the economic lift that white-water rafting would give other parts of the state, and some suggest that the off-road trails could bring similar riches to Matewan. Certainly, compared with most towns of its size, Matewan's violent historical legacy gives it a vital leg-up on the competition.

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Lexington

Where gumshoes fear to tread

May 30th 2002
From The Economist print edition

Fixing the FBI may entail some decidedly unAmerican thinking about political correctness and privacy

LAST week, Washington was obsessed by one question: what did the president know before September 11th? This week, a new question has taken its place: what did the FBI know before September 11th? The first debate died a well-deserved death. The second debate is leading to the biggest shake-up of the FBI in its history.

It is now clear that FBI agents out in the field were investigating the behaviour of suspicious Arabs before September 11th, and that their bosses buried their investigations. Last July, an agent in the bureau's Phoenix office told FBI headquarters that he was worried that al-Qaeda agents were training in American flight schools. The Washington bureaucrats did nothing. A little later, Minneapolis agents, excited by their arrest of Zacarias Moussaoui (the alleged 20th hijacker), asked for a search warrant to examine his laptop computer. The bureaucrats refused, despite receiving reports from French intelligence about Mr Moussaoui's involvement with Islamic terrorism.

It is easy to be wise after the event: big bureaucracies like the FBI are inundated with information every day. Yet there are growing reasons to think that a more willing headquarters could have put the information together and prevented the September attacks. After all, the two memos were both sent to the same place: the FBI's radical-fundamentalist unit. And Mr Moussaoui's computer contained the phone number of a room-mate of Muhammad Atta, one of the hijackers. Is it too far-fetched to imagine that a visit to Mr Atta's room-mate, combined with an investigation of Arabs at American flight schools, might have persuaded the terrorists to abort their mission?

FBI headquarters did not just bury the memos on flight schools under a pile of paper. It went out of its way to frustrate the investigators

It gets worse. FBI headquarters did not just bury these memos under a pile of paper. It went out of its way to frustrate the investigators. One supervisor complained that there were plenty of men named Moussaoui in France. How did the agents know this was the same man? The agency may even have removed key information from the Minnesota office's warrant application before sending it to the legal department.

For months after September 11th, Robert Mueller, the head of the FBI, swore that his agency had not received any warnings that Islamic terrorists were planning a September 11th-style attack. Last week the Minnesota office's legal counsel, Coleen Rowley, infuriated by the stonewalling, wrote a 6,000-word memo to the director. Mr Mueller's response was to stamp “classified” on it, but it was promptly leaked to the press.

Why did the bureau make such an almighty hash of things? Because beneath all the usual turf-protection and incompetence lie two fundamental weaknesses. The biggest is that the FBI is a police force rather than a counter-intelligence body. America's spies are all overseas. It has no equivalent of Britain's MI5. The first instinct of domestic spooks would have been to subject Arizona's aeronautical Arabs to covert observation. The first instinct of the FBI's policemen was to see if they had broken any laws, which they had not.

The FBI's biggest weakness is that it is a police force rather than a counter-intelligence body

The other big reason why the FBI failed to follow up the Phoenix and Minneapolis memos was fear of being accused of “racial profiling”. Last month, Mr Mueller told the Senate Judiciary Committee that investigating the 20,000 students attending American flight schools would have been “a monumental undertaking without any specificity as to particular persons”. Nonsense. If the search had been narrowed down to Arabs, it would have been manageable. But the FBI, which had been accused of racial profiling when it claimed Wen Ho Lee had spied for China, and failed to prove it, did not dare to do it.

Can it change either of these things? This week, Mr Mueller attempted to right the first; he announced a change in the bureau's mission, making counter-terrorism a priority. Henceforth, the FBI's target will be Osama bin Laden rather than Bonnie and Clyde. He has even moved towards building a form of embryonic MI5, reassigning several hundred agents from traditional crimes to terrorism, putting the accent on prevention, and inviting officers from the CIA into the bureau's field offices.

This revolution is rife with practical problems. It will take more than a few name-changes to transform policemen into counter-terrorism experts. (For all the hype, the fraction of agents devoted to terrorism will rise from under a fifth to under a quarter.) The idea that the CIA and the FBI will suddenly start working together amicably seems unlikely; and anyway, who would want to take spying lessons from the CIA, which was only slightly less culpable in the September 11th mess?

Spooks and snoops

Yet the biggest problem will be cultural. Americans deeply resent the idea of their government being able to snoop on them. A post-war attempt to set up a domestic security agency was killed by that famous liberal, J. Edgar Hoover, on the grounds that it would be an American Gestapo. Americans still object to things—like video cameras in malls—that Europeans take for granted. They will surely circumscribe their new domestic spooks with all sorts of privacy laws that will make their job extraordinarily difficult.

As for profiling, an increasing number of people seem to think there is a big difference between policemen picking on speeding black drivers and spies targeting Arabs who might harbour plans to set off nuclear bombs. The chairman of the House Intelligence Committee, Porter Goss, has promised to raise the subject. That does not mean anything will be done.

“*C'est magnifique*”, one worldly foreigner observed as the Light Brigade charged to their doom at Balaclava, “*mais ce n'est pas la guerre*.” Are principles about privacy and discrimination worth clinging on to in war? Many Americans may feel that nothing justifies sacrificing the freedoms that make their country special. But that debate is slowly beginning to happen.

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Argentina's collapse

Scraping through the great depression

May 30th 2002 | ROSARIO
From The Economist print edition

AP

As Argentina's politicians stumble towards an IMF agreement, its new poor scrabble to survive

Get article background

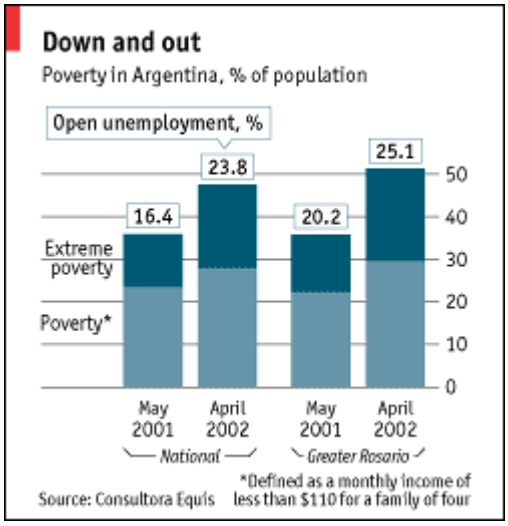
IN HIS backyard, behind a makeshift fence to keep his two scrawny chickens from digging it up, Raul Alaniz has a tiny patch where he keeps earthworms, feeding them food scraps, which they will turn into organic fertiliser, which he hopes to sell. Unlikely as this sounds, Mr Alaniz, an unemployed bus driver, says that several of his equally desperate neighbours in Las Delicias, a district of Rosario, are doing the same, in the hope of earning a few pesos. Others are raising snails and frogs to sell to restaurants. Across the road, in an abandoned house that has been turned into a community centre, a group of women bake bread, while others make children's clothes from old jeans.

Such is the penury to which this once-grand city, known as the “Chicago of Argentina”, has been reduced. Rosario is a river port, and the economic hub of the farming province of Santa Fe, on the fertile “humid pampas”. It is where much of Argentina's huge agricultural output is traded, processed and despatched. Las Delicias used to be a comfortable working-class district; jobs were plentiful in nearby meat-packing plants. But, like the rest of the city, and Argentina as a whole, it had been in decline even before the economy imploded late last year. Now, in Las Delicias, some have gone straight from being solidly middle-class to depending on food parcels, says Nora Molinari, the secretary of a local residents' association.

Unemployment in greater Rosario is now 25% and rising (see chart). With accelerating inflation eating into living standards, more are falling into poverty every day, says Artemio Lopez, a sociologist. Locals say some shops have raised the price of basic foodstuffs several times within a week.

To break this downward spiral, President Eduardo Duhalde's government is seeking a new accord with the IMF. It hopes that this will unlock loans to ease poverty, rebuild the shattered banking system and get the economy moving again. Because of

Argentina's failure to comply with previous accords, the IMF has imposed tough preconditions for any new deal. These include amending a bankruptcy law which favoured debtors, scrapping an "economic subversion" law which courts have used against bankers, getting provincial governments to cut their spending, and taking steps to restore confidence in the banking system.



Apart from amending the bankruptcy law, Mr Duhalde has made little progress in complying with these. Last week, he threatened to resign if Congress and the provincial governments did not swiftly put in place the remaining preconditions. His threat produced a reaction: at a meeting on May 27th with the 14 provincial governors (out of 24) that belong to his Peronist party, 11 reiterated their promise to cut their deficits by 60% as the IMF wants. Felipe Sola, the governor of Buenos Aires, the biggest and most indebted province, said he would make cuts of around 50%, apparently with the IMF's acceptance. But, said Mr Sola, he would cut only if he got aid from the national government.

Even if these promises are kept, there are still big obstacles to an IMF agreement. One involves the banking system, paralysed since December 1st by a hugely unpopular freeze on deposits (known as the *corralito*, or little fence). Last month, Congress rejected a plan to turn the frozen deposits into bonds, provoking the resignation of the economy minister, Jorge Remes Lenicov. His replacement, Roberto Lavagna, is expected to announce a new scheme to lift the *corralito* shortly. Despite it, the banking system has continued to bleed money, leading two foreign banks (Canada's Scotiabank and France's Crédit Agricole) to abandon their Argentine subsidiaries. More may flee unless a rescue plan is enacted swiftly.

Hitherto, the Central Bank has been printing pesos to lend to the banks to keep them afloat. If it continues to do so, inflation will soar. Yet many Argentines do not even have the luxury of being paid in devalued pesos. Governments, both national and provincial, are paying some of their bills using a growing number of quasi-currencies (bonds which look like banknotes and are used for everyday transactions). Furthermore, in countless devastated districts such as Las Delicias, "swap clubs" have sprung up, in which people trade goods and services using locally printed vouchers—yet another form of quasi-money, whose issuance is even more unrestrained.

In Las Delicias at least, all this funny money has retained its value against the (declining) peso, though some small shops will not touch it. Finance officials insist that, after an IMF deal is signed, all of the government scrip will be gathered up and exchanged for pesos at face value. Few believe them, so nobody is saving the stuff.

Officials insist that for the first time in many months, there are some reasons for optimism. Besides the new agreement between Mr Duhalde and the governors, they point to an increase in tax revenues in May as hinting at recovery. Some of Rosario's idle meat-packers and engineering firms have started to talk of reopening, to take advantage of the huge competitive gain that devaluation has brought.

But it is far from clear that Mr Duhalde has achieved anything more than another brief respite. And even if Argentina has in fact reached a turning-point the gloom in Las Delicias's community centre will not lift soon. Asked how long he thought the recovery would take, an unemployed man there shrugs and says: "maybe three generations". That is as long as it took Argentina to fall from its former glory as one of the world's wealthiest economies to its current, miserable condition.

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Colombia's presidential election

Uribe's hour

May 30th 2002 | BOGOTA
From The Economist print edition

The new president has a strong mandate, for war and peace

Get article background

HAVING defied assassination attempts and the slurs of opponents, Alvaro Uribe, a studious former provincial governor, has won a clear mandate from the voters to tackle the violence of the FARC guerrillas. In a presidential election on May 26th, Mr Uribe, a lifelong Liberal who ran as an independent, won 53% of the vote. That was well ahead of Horacio Serpa, the official Liberal candidate, with 32%. By winning an absolute majority, Mr Uribe avoided a run-off election which might have prompted further attempts on his life. Mr Uribe has almost no political debts. But he has a huge job ahead of him.

He owed his victory primarily to the tenacity with which he stuck to a simple message—of law and order, and restoring the authority of government. As three years of abortive peace talks with the 18,000-strong FARC collapsed in February, that message struck a chord.

Mr Uribe wasted no time on a victory party. Instead, he invited the United Nations to form a mediation team to assess the possibility of launching fresh peace talks. But these, he stressed, could take place only if the guerrillas first ceased all hostilities, including kidnappings.

That was shrewd. It dispelled Mr Uribe's image as a warmonger, and served to give additional legitimacy to his plans for a military build-up. And it marked a clear break with the peace talks organised by Andres Pastrana, the current president. Conducted while conflict continued, these were chaotic and improvised, lacking professional negotiators and a clear agenda. International involvement in any future talks, initially resisted by Mr Pastrana, is a likely condition for their success.

But first the FARC must agree to Mr Uribe's terms. And that may take several years of fighting. Last week, the FARC offered new talks but only if the government ceded control over the southern provinces of Caqueta and Putumayo. That is an area twice the size of the enclave Mr Pastrana turned over to the rebels, and is the source of more than 40% of the country's drug production. Colombians laughed.

Mr Uribe was not elected as a peacemaker, however. He has promised to double the security forces, revive Colombia's war-crippled economy, crack down on corruption and seek extra aid from the United States and from development banks. He said he would keep on Luis Alberto Moreno, Colombia's effective ambassador in Washington.

The election itself showed how far the government's control has frayed. One candidate, Ingrid Betancourt, who polled 0.5% of the vote, has been a FARC hostage since February. Some of Mr Uribe's supporters were threatened by the FARC, while some of Mr Serpa's were targets of right-wing paramilitaries. The FARC burned ballot boxes in some rural areas, even though the government had moved 1,200 polling stations to safer locations.

Although 200,000 troops and police were mobilised to safeguard voters, the turnout, at 46%, was lower than in the last election in 1998 (when it was 50% in the first round, and almost 60% in the run-off). That was probably the result of intimidation. In Bogota, 55% voted, compared with only 25% in Caqueta, which includes the former FARC enclave. Francisco Santos, Mr Uribe's running mate, reckoned that the guerrillas had thwarted 1m would-be voters in all.

His strong mandate gives Mr Uribe the chance to push ahead with economic and political reforms aimed at freeing resources for defence spending and attacking corruption. He has the support of much of the Liberal party, and of Mr Pastrana's Conservatives. But he will have to act quickly, if he is to satisfy the

expectations he has aroused.

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Venezuela's armed forces

Pressure cooker

May 30th 2002 | CARACAS
From The Economist print edition

Is another coup in the works?

Reuters

The army has an itch

Get article background

SIX weeks after the failed coup against President Hugo Chavez, unrest within Venezuela's armed forces remains close to boiling point. On May 25th, a hooded man in the uniform of a National Guard captain interrupted a conference in a Caracas hotel and left a sabre wrapped in red cloth on the table. With it was a communiqué declaring that the Guard's officer corps was in rebellion against its commander, General Landis, a Chavez loyalist. The president faces a choice of bowing to military opponents, and removing General Landis, or risking further disobedience.

The other three armed services are in a similar state. So deep, and so high, ran the April rebellion that the president has had to turn to colonels and their equivalents to fill posts normally held by generals and admirals, pending the annual round of promotions due to be announced on July 5th. “There has never been a greater purge of the armed forces,” says Jose Machillanda, a retired colonel who now lectures on military affairs. At least 600 officers are thought to be under investigation.

Neither can Mr Chavez, a populist who claims to be leading a “Bolivarian revolution”, rely on middle-ranking officers, those with direct command of troops. These so-called *comacates* (an acronym based on the Spanish words for ranks between lieutenant and lieutenant-colonel) are seething over the behaviour of their superiors. “Order, discipline and obedience are breaking down. There is a divorce between authority and command,” according to Colonel Machillanda.

Some of the discontent pre-dates the coup. It is over issues such as the government's alleged arming of civilian militias, its overly cosy relationship with leftist guerrillas in neighbouring Colombia and the politicisation—and corruption—of a traditionally “institutionalist” military establishment. But the recent behaviour of the general staff, and the purge itself, have raised the temperature still further.

In a video recorded while Mr Chavez was briefly a prisoner, he is heard to call the high command “disloyal cowards”. But of the top brass during the coup, only the army commander faces discipline. In what looks like a sign of the president's military weakness, General-in-Chief Lucas Rincon, the armed forces' overall commander, has been promoted to the job of defence minister. It was General Rincon who announced in the early hours of April 12th that he had asked the president to resign “and he has

accepted”, something which Mr Chavez has since denied.

So is Venezuela heading for another coup? Mr Chavez has shuffled his cabinet, removing some of its more radical members. But attempts to bring government and opposition together were “a lost cause”, according to one of those who tried. An unrepresentative “dialogue commission” set up by the president was stillborn. Mr Chavez's term lasts until 2006. Opposition hopes of cutting it short by constitutional means (by referendum, constitutional amendment or impeachment) depend on recruiting more waverers to its ranks in the National Assembly, and on the replacement of officials such as the public prosecutor, a Chavez loyalist.

If there is another coup, it would probably be much bloodier than the last one, in which some 70 people died. One plotter reckons that defeating Mr Chavez's diehards could leave at least 2,000 dead. That figure could rise steeply if the armed forces were to split, with units fighting each other. Then there is the president himself. In April, it was possible for his supporters to restore him to power because he was alive and in the country. Next time he might not be so lucky. Fearing an attack on his life, he has avoided public rallies since the coup. Unless the armed forces succeed in acting as a successful pressure group, pushing Mr Chavez towards moderation, another explosion would seem to be only a matter of time.

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Social policy in Chile

Ultramontane

May 30th 2002 | SANTIAGO
From The Economist print edition

Fighting 16th-century battles

AP

Lagos pays court

SHIELDED by the Andes from an irreverent world, Chile is South America's most successful economy—and most conservative society. Divorce and abortion are still banned, some films still cannot be shown and few homosexuals dare to come out into the open. This prudishness is tribute to the enduring influence in Chile of the Roman Catholic church.

That is surprising. When democracy was restored in 1990, many Chileans hoped that liberal social policies would soon join recovered political freedoms. But those hopes have been thwarted by the debt of gratitude that the governing centre-left coalition feels to the church for its role in defending human rights under the dictatorship of General Augusto Pinochet. It feels it still: last month, Ricardo Lagos, Chile's president and an agnostic, paid a visit to the pope. Chile's right has its own contradictions: opposition politicians and business leaders espouse economic liberalism, but are influenced by reactionary Catholic movements, such as Opus Dei and the Legionaries of Christ.

As a result, “it's often difficult to tell that state and church were separated in 1925,” says Jorge Carvajal, the grand master of Chile's Freemasons. Mr Carvajal complains that religious teaching is compulsory in state schools and that even new roads are blessed by a priest. More seriously, he also blames the church for blocking AIDS prevention campaigns.

The government estimates that one in four pregnancies in Chile ends in abortion, often in a shady back-street clinic. But an abortion law is not even on the government's agenda. “Chile is not ready to discuss abortion,” says Mr Lagos. He may be right, though a new poll found 58% in favour of legal abortion in some cases. But two years into his term, Mr Lagos has failed to carry out his campaign promise to legalise divorce—a measure that nearly all Chileans, including many practising Catholics, do want. At present, the well-off use a legal loophole to annul a failed marriage. Poorer Chileans simply cohabit with a second partner. Partly as a result, half of Chile's children are born outside marriage.

A Senate committee recently voted, in principle, to legalise divorce. This was a triumph, said the government, which is opposed on this issue by some of its own Christian Democrat supporters. But debate about the grounds on which divorce might be allowed will be lengthy. It is far from certain that the law will be approved by December, as the government hopes.

Many moderate Catholics fear that by opposing divorce, the church is alienating its followers, particularly younger and poorer ones. Among the poor, evangelical Protestants, who oppose abortion but not divorce, are gaining converts. A new national census is expected to show that three out of four Chileans still consider themselves to be Catholics. But in a recent survey by the United Nations Development Programme, only 33% said they belonged to a church, while 58% said they believed in God “in my own way”. The church's own figures show that only 17% of Chileans attend weekly mass; among 24-35-year-olds, the figure is 10%.

Church officials insist that it is not their job to fall into line meekly with public opinion. But the government's mandate is temporal. Its duty is to the voters. And they want change.

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India and Pakistan

Bridging the great divide

May 30th 2002 | DELHI AND LAHORE
From The Economist print edition

AP

Diplomacy is at work to talk India and Pakistan back from the brink

Get article background

“THE situation is dangerous, but war is not inevitable.” So pronounced Jack Straw, the British foreign secretary, after visiting the leaders of Pakistan and India this week. It may be true, but his careful words hint at more than mere accuracy. The current leash-straining between the nuclear-armed neighbours may be the right climate for outsiders like Mr Straw to propose lasting solutions. War would wreck the atmosphere: but so, too, might a premature peace that could not stick.

Mr Straw would not say whether Pakistan had bowed to India's main demand: stopping the terrorism that it visits upon India to undermine its rule of Kashmir. To accuse Pakistan's president, Pervez Musharraf, of failure would invite Indian assault, while to absolve Pakistan would pressure India to pull back its army, now poised to strike Pakistan, before a deal is reached. Mr Straw has now left the region, but America's deputy secretary of state, Richard Armitage, is on his way in to refine the peace proposal, if indeed one really does exist.

Pakistanis insist that General Musharraf is doing as India demands. It will soon be apparent, they say, that the government has blocked infiltration by anti-Indian militants across the line of control, which divides Kashmir into Indian- and Pakistani-controlled zones. A Pakistani newspaper reports that radio links between militants on either side of the line have been cut. General Musharraf is also said to be dismantling camps for terrorists in Pakistan-administered Kashmir. In return, he expects India's prime minister, Atal Behari Vajpayee, to open talks on Kashmir.

India, though angry and disbelieving, accepts this deal in principle. If General Musharraf keeps his promises, said Jaswant Singh, India's foreign minister, India will “reciprocate.” This is what outsiders are pushing for. Apart from their nuclear worries, they are desperate to head off an attack by India on the main frontline ally in the fight against al-Qaeda. As conscientious fighters of terror, they are pushing General Musharraf to act first by cracking down on terrorism.

Plenty could still go wrong. More terrorism, like the May 14th slaughter of soldiers' wives and children or the December 13th attack on India's parliament, could trigger an Indian reprisal. An attack on an Indian police station on May 30th hardly inspired confidence. General Musharraf condemns such attacks, and claims that they are aimed as much at destabilising his government as at India. Yet even if the next big attack is not the doing of Pakistan's government, India may feel that its credibility depends on punishing,

rather than merely admonishing, Pakistan.

A gap remains between what India demands and what General Musharraf says he will do. India wants the machinery of terrorism shut down for good, not merely put in storage. General Musharraf is unlikely to comply in full.

One reason is that if war does break out, the machinery will come in handy. General Musharraf told the *Washington Post* that “hundreds of thousands” of people are itching to fight India on its side of Kashmir. A second is that India's mistrust of Pakistan is fully reciprocated. India wants to crush Kashmir's resistance and to destabilise Pakistan, General Musharraf told the *Post*. He also believes that India wants to remove him personally, and it is true that in Delhi his standing approaches zero. India's demand for the liquidation of the outfits that fight India would, in Pakistan's view, amount to unilateral disarmament. India, meanwhile, would go ahead with elections in Kashmir set for this autumn and call the results an endorsement of its rule, leaving Pakistan in the cold and General Musharraf looking like the dictator who lost Kashmir.

The general can ill-afford this. True, his regime does not look especially shaky. According to a recent poll commissioned by the American State Department, 72% of urban Pakistanis have confidence in him (or did before a widely derided referendum in April that extended his term as president). A large majority backs his banning of the extremist Islamist groups that have caused havoc inside Pakistan. Most also support the government's management of the economy, though, doses of foreign money apart, it is limping along at best. The polls also show that although support for the militants in Kashmir is still strong it shows signs of slipping.

But it is not the silent majority that threatens the general's rule. Rather, it is a lethal minority. The most dangerous are the extremists, who regard him as an American stooge for joining the war against the Taliban and will brand him an Indian lackey if he chokes off the militancy in Kashmir. Terrorism within Pakistan itself—such as the bomb that last month killed 11 French engineers in Karachi and is making multinationals, as well as embassies, think very hard about the safety of their staff—is probably their doing.

Even more alarming is the growing evidence that members of al-Qaeda, displaced from Afghanistan into Pakistan, have been involved in these attacks. The al-Qaeda remnants are now thought to be in hiding not only in Pakistan's north-western tribal areas, but in many of Pakistan's largest cities, where the potential for harm, if they have linked up with Pakistan's own home-grown militant groups, is immense.

Pakistan's army is disciplined. But even the army harbours people with similar attitudes to some of the militants. On Kashmir, General Musharraf shares some himself. No Pakistani can contemplate surrendering to India: all worry that India, which dismembered Pakistan in 1971, would love to do it again. Yet India cannot accept Pakistan holding in reserve a terrorist weapon that may again be used to press its suit in Kashmir.

What is needed now is a sequence of steps to dance Pakistan and India away from the brink without allowing one to trip the other up. Outsiders like Mr Straw and, next week, Mr Armitage can help with the choreography.

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China

The withering away of the party

May 30th 2002 | BEIJING
From The Economist print edition

Economically, but not politically

Get article background

IN URBAN China, the Communist Party's roots are weakening fast. In the late 1990s, the number of city dwellers employed by state-owned enterprises dropped to fewer than half the workforce. As the state sector crumbles, so too do the party branches that once controlled the lives of urban Chinese. Party officials talk of the urgency of setting up branches in non-state enterprises, but they are making little progress.

The party itself is still expanding. It now has 64m members compared with 50m in 1990. But this is no reflection of the party's popularity among those who work in the most dynamic and productive area of urban China's economy. Take Wuhan, for example, a city of 4.4m people on the banks of the Yangtze. In 1993, a mere 0.9% of its party members worked in private or foreign-invested enterprises. Six years later, the proportion remained virtually the same. Or take similar-sized Shenyang, north-east China's biggest city. In 1999, some 640,000 people worked in non-state enterprises there. That year, the party managed to recruit only 29 of them as new members. Data on party membership are patchy. But according to one party journal, only 17% of private firms employed party members in 1999 and just 3% had any kind of party organisation. Foreign-funded enterprises are often formed in partnership with state-owned firms. Yet only 35% of them employed party members that year and a mere 17% had party cells.

Officials sometimes boast of successes. One example they cite is the party organisation in Motorola (China) Electronics Ltd, a factory complex in the port city of Tianjin owned by one of the biggest American investors in China. It produces mobile telephones and other electronic equipment. According to party publications, a branch was established in the company in 1990, even before its official founding. But the organisation remained clandestine, not wanting to alarm the foreign bosses.

Four years later, party leaders of the development zone where the Motorola plant is located decided to tell the company what was going on. A party journal said the foreigners were “pleasantly surprised” to find that members included most of the company's top technicians and managers. The journal said the company not only agreed to the establishment of a bigger party branch, but also offered a place for it to meet (Motorola itself refuses to comment on its dealings with the party). Now the company's party organisation boasts 300 members, though this is still only 3% of the workforce.

But does even this rare success make any difference? In state-owned enterprises, the party committee usually runs the factory. Often the factory manager serves as the party branch leader. At least until the 1990s, when the collapse of the state sector began in earnest, workers aspired to be party members because membership gave them power. But even where the party has managed to gain a foothold in private and foreign-owned enterprises, its role is inevitably far less important.

Officials say that one function of party cells in the non-state sector is to help ensure that such enterprises uphold the law. But unlike in the state sector, employees are on short-term contracts if they have any contract at all, and are hardly likely to challenge bosses for violating regulations. This could be one reason why China's party chief, Jiang Zemin, decided last year to end the party's ban on admitting private-enterprise bosses as members. At least if an enterprise is led by a party member, the party might retain a modicum of influence. But as one official journal put it: “The party constitution requires party members to hold themselves responsible to the working class. The Company Law requires managers to hold themselves responsible to the board of directors.”

Pan Wei, of Beijing University, says that even in stodgy state enterprises, the party is losing its grip. “Party organisations at the grassroots have been decaying. Regular party activities have virtually stopped,” he says. In a few years' time, this could mean that in urban China at least, the party's grassroots activities will be confined mainly to government departments and institutions, in which party membership remains a prerequisite for advancement. “It will be pretty much a bureaucratic party,” says Mr Pan.

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Singapore's economy

Picking the losers

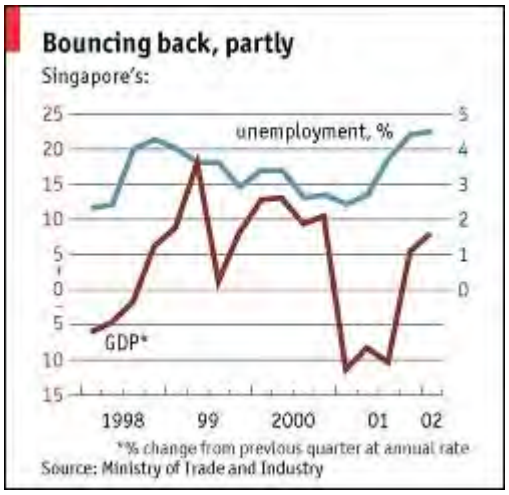
May 30th 2002 | SINGAPORE
From The Economist print edition

Bad news for the poor

THE members of Singapore's Economic Review Committee must be feeling heartily relieved. Amid the depths of the current recession, the government charged them with the task of restoring the country to the breakneck growth of the past 40 years. But before they could submit all their recommendations, the economy began to pick up. The latest package of proposals, unveiled on May 30th, was overshadowed by the welcome news two days previously that industrial output was finally growing again.

But even if the immediate pressure is off, the committee members cannot exactly relax. Lower-cost competition from abroad is eating into the country's bread and butter, the electronics business. Hong Kong and China have supplanted Singapore and South-East Asia as trendy destinations for foreign investment. Even Singapore's status as a transport hub is coming under threat from upstart ports and airports in neighbouring Malaysia. Growth may be picking up, but employment is not (see chart).

So far, the government has come up with three main strategies to meet these challenges. In the short term, it hopes to keep business costs down by cutting taxes and urging wage restraint. In the medium term, the government plans to use tax breaks and seed money to foster new high-tech industries such as pharmaceuticals and genetics. And in the long term, it says it will stand back from business, and encourage Singaporeans to become more free-spirited, entrepreneurial folk, capable of sustaining growth without government supervision.



All three strategies have their drawbacks. Singapore will never be able to compete on cost with poverty-stricken neighbours such as Indonesia, while the attraction of Hong Kong lies not in its slightly lower tax rates, but in its proximity to the rest of booming China. In the meantime, the government has raised consumption tax (which falls disproportionately on the poor) to make up for cuts in corporate and income taxes. What with the drive for wage restraint, the burden of Singapore's economic transformation is falling squarely on the poor. “Let's not pretend that the income gap won't rise,” says Goh Chok Tong, the prime minister. Such candour has already prompted some grumbling among Singapore's normally rather timid citizens.

Song Seng Wun, an economist at GK Goh, also has his doubts about the government's ability to select industrial champions. He points out that some businesses the government was ready to write off, such as shipbuilding, have prospered, while targeted activities such as chip-making have not performed as well as expected. Last year manufacturing, for long the engine room of the economy, contracted by 12%, compared with growth of 15% in 2000. Inderjit Singh, an MP from the ruling People's Action Party, complains that the government is biased towards prestige products, so has not helped to build the Singaporean likes of a Starbucks or a McDonald's. He questions whether Singapore even needs an industrial sector, when Singaporean companies could earn as much money or more investing in similar projects in China.

Furthermore, the government's habit of promoting particular businesses sits ill with its purported aim of withdrawing from business altogether. Supposedly privatised companies still have surprising numbers of former bureaucrats and soldiers on their boards, while state-owned firms dabble directly in everything from distributing stationery to roasting ducks. As Mr Song puts it, “The government has been in business so long, and has made so much money out of it, that it must be reluctant to stand back.”

True to form, the committee's latest proposals reiterated the government's commitment to privatisation, without proposing any specific measures to bring it about. And however sound its proposals, it is still a committee, rather than the market, that rules Singapore's economy.

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South Korea

It's the way you say it

May 30th 2002 | SEOUL
From The Economist print edition

The scholars are spellbound

THE South Koreans, as every visitor to their esteemed country knows, are among the most helpful people on earth. They have tried to make their written language easy for foreigners by romanising it where possible. The president does not object to being called Kim Dae Jung. That is quite close to his name's true sound. But the scholars at the National Academy of Korean Language felt that it is not quite close enough. Make it Gim Daejung and you are spot on, the scholars decided. Korean words that up to now have been making do in English by starting with K,T, P and CH, should now start, respectively, with G, D, B and J.

Those famous family-owned conglomerates are not chaebol but jaebol. World Cup matches due to take place in Pusan will now be held in Busan, which might confuse a few fans. Kimchi, the Koreans' traditional vegetable dish, is strangely unchanged, but that need not bother foreigners, who don't much care for it anyway.

The new spellings, and such matters as writing given names as one word, have been given the force of law under an act passed two years ago, so it is now possible to gauge its impact. Critics wonder if the change is worth it. The government is having to spend hundreds of millions of dollars reprinting English publications, road signs and maps. It is pointed out that North Korea has its own romanisation system, but that is what you would expect from the axis of evil.

At least the switch does not have to be completed until 2005. And Koreans may be allowed a longer period before they have to change the English spellings of their names on business cards, passports and other personal documents. By then, of course, the scholars may be pondering again...

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Democracy in Nepal

A six-month reprieve

May 30th 2002 | KATMANDU
From The Economist print edition

A general election is called

IN A desperate attempt to avoid a collapse of democracy in Nepal, the prime minister, Sher Bahadur Deuba, has called a general election, albeit not until November 13th. A few weeks ago, no one thought Nepalis would have to go to the polls two years early, least of all Mr Deuba, who had a theoretical majority in parliament and international support for his military campaign against a violent Maoist rebellion.

He had sent the army after the Maoists and imposed a state of emergency. The United States and Britain were offering him extra aid, worth nearly $40m from the Americans alone. Yet even as the new money was giving a shine to the country's ailing finances, cracks were appearing in Mr Deuba's own, fissiparous, Nepali Congress party. In parliament a faction lead by a former prime minister, Girija Koirala, opposed Mr Deuba's attempts to extend the emergency regulations. Military officers, and reportedly King Gyanendra, were furious at what was seen as a slight on the soldiers. There was talk of a military coup or other moves aimed at restoring authority to the monarch.

Instead, Mr Deuba's fully legal election decision gives him a six-month breathing space as head of an interim government, free of political interference, even though his party has tried to make things difficult by expelling him for three years. The leader of the Communist opposition, Madav Kumar Nepal, has much to gain. Mr Nepal knows he is the man to beat at the polls, especially if the Nepali Congress now formally splits into factions. His party, the United Marxist-Leninists, occupies the same political ground as the Maoists: pro-peasant, anti-big business, committed to land reform and ending poverty.

Reuters

The self-styled Maoists march on

No one expects the Maoists to remain quiet. The guerrillas, led by leftist intellectuals with an increasingly violent streak, want to replace Nepal's constitutional monarchy with a communist republic. The United States gave warning this week of the dangers of travel in Nepal, a country popular with Americans, many of whom go on trekking expeditions in remote areas. More than 4,000 people have died since the uprising began in 1996. But the army is proving to be an effective opponent. This week, according to the government, more than 150 rebels were killed when they attacked an army camp in the Rukum district in

western Nepal. Five soldiers were reported killed. In a clash in the Bajhang district, ten Maoists were killed.

The rebels have found it safer to destroy bridges, water supplies and government buildings. But attacks on the latter have destroyed lists of voters and terrified the electorate in many rural areas. Campaigning will be dangerous if, as expected, Maoist snipers target political candidates.

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Central Asia

The dead dog warning

May 30th 2002 | ALMATY
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Perils of the opposition

WHEN *Respublika*, an independent-minded newspaper, criticised the Kazakhstan authorities, the editor received a funeral wreath with her name on it. Then the body of a beheaded dog was hung on a window at the newspaper's premises, with a warning note attached to it. Last week the premises were destroyed by fire.

While *Respublika*'s voice may have been interrupted, the attackers have also caused what could be long-term damage to Kazakhstan's reputation as a stable country and a developing democracy. The business weekly is close to Democratic Choice, an opposition movement, and has been highly critical of the arrest of one of its leaders, Galymzhan Zhakiyanov, who has been accused of corruption when he was a regional official.

Such charges are fairly common in Central Asia, a convenient way for authoritarian presidents to dispose of their political opponents. But suppressing dissent can also be dangerous, as the government of neighbouring Kirgizstan has found.

In January, a then little-known member of the Kirgiz parliament, Azimbek Beknazarov, was accused of abusing his power in a previous post. Two months later, five people were shot dead by police while demonstrating against his trial. Mr Beknazarov was subsequently released, but the protests continued. A state commission found that senior officials were to blame for the five deaths. The prime minister, Kurmanbek Bakiyev, and his cabinet resigned on May 22nd. In response, President Askar Akaev sought “co-operation” with opposition politicians.

Kirgizstan is a much smaller and poorer country than Kazakhstan, but there are political similarities between the two. Their presidents have been in power since the Soviet period. After independence in 1991, Mr Akayev and Nursultan Nazarbaev of Kazakhstan initially put their countries on the path of democracy. But as the years went on, they moved to authoritarian rule, stifled the media, installed members of their families in key positions, and became increasingly allergic to opposition.

Still the opposition refuses to go away. In oil-rich Kazakhstan it is mostly driven by business groups who want a piece of the pie. In Kirgizstan opposition groups see themselves as the voice of the ordinary people. Either way, the opposition is a force the government finds it dangerous to ignore.

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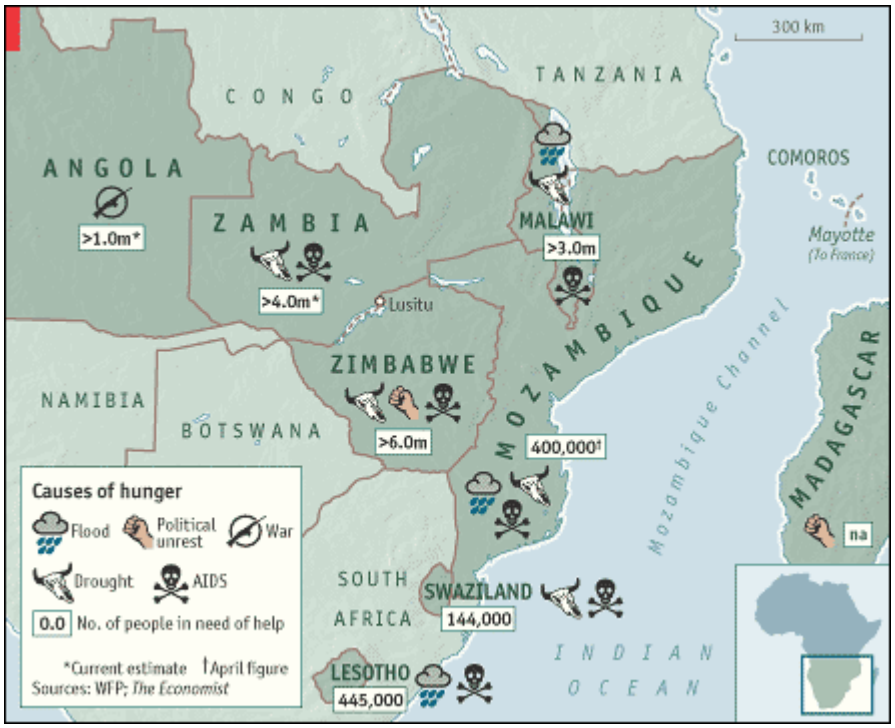
Southern Africa's food shortage

With the wolf at the door

May 30th 2002 | LUSITU, ZAMBIA
From The Economist print edition



Bad weather, and bad rulers, are making millions of people hungry

JENERAH MICHELO sits in her little stick-hut, and politely offers her visitors lunch. It is a generous but symbolic act. Her battered cooking pot is nearly empty, and she is skeletal. She describes how her six children often go without food. Though they got some emergency grain a week before, they still have to resort to leaves from unripe water melons, or poisonous berries that have been well boiled. “This time last year we were eating the harvest. Now we are expecting death by hunger,” she says simply.

Her village, Lusitu, like much of southern Zambia and many parts of southern Africa, suffers from a list of connected problems: late rains, the worst harvest in memory, sharp price increases, and a collapse of the extended family because of AIDS. Lean periods are common in rural Africa, and villagers usually know how to survive. But hunger at harvest-time is a stark warning for the rest of the year.

Now the traditional systems for caring for the old, weak and ill seem under threat. “The others in the village and my relatives, they do not take care of us, mainly because I'm a ‘patient',” says Mrs Michelo, who like one in five of Zambian adults is infected with HIV. Her husband died of AIDS. Neighbours have stolen two of her few remaining chickens. Others in the village describe how their younger relatives fled to towns in search of work and food, but have sent nothing back.

Subsistence farmers here and in Malawi, Lesotho, Swaziland, parts of Mozambique and much of Zimbabwe are suffering because of late or erratic rain. Unusually, entire crops of maize, groundnuts, cotton and even drought-resistant sorghum have failed.

In a sign of desperation, livestock is being sold at low prices. Some farmers in Malawi resorted to taking unripe crops from their fields. Dozens of thieves caught doing the same have been killed, or had limbs cut off, by angry mobs. The governments of Zambia, Malawi, Zimbabwe and Lesotho have each declared a food emergency, and asked for foreign help.

This week the World Food Programme (WFP) revised its April figures for the number of people needing urgent aid in the region from 2.6m to more than 10m. Aid agencies say that more than twice that number could need help if donors are slow to respond or conditions worsen. More than 6m people in Zimbabwe, roughly half the population, will need food aid this year, more than 5m of them immediately. In Malawi, 3m need urgent help. Meteorologists worry about both droughts and floods. UNICEF says 1,000 people have already died from a cholera epidemic that spread after floods followed a dry spell in Malawi. Mountainous Lesotho was also deluged earlier this year.

But nature is only part of the current disaster. Despite the weather, well-run Botswana is unaffected, and South Africa as usual has produced a grain surplus. “The food shortage in 1992 affected 18m people and was a natural disaster. This is different,” says Judith Lewis, the WFP's regional director. Political instability, failing governments and war contribute to the crisis.

Angola is only now emerging from two decades of a civil war that forced farmers from their fields, and has now left it in need of food for up to 1m people. Madagascar had a good harvest, but the island is shaken by a political crisis, and aid workers talk of a “creeping” food emergency: prices have surged as roadblocks, and destroyed bridges, make transport risky and expensive. Even quiet Zambia is hurt by other countries' conflicts, playing host to some 300,000 refugees from wars in Angola and Congo, nearly half of whom depend on food aid.

Not a ruling-party member? No food

Politics has had a particularly pernicious role in Zimbabwe, which has stopped being a net grain exporter and is desperately hungry. The country's usual grain output is 1.8m tons, but poor rains and lousy politics have meant that this year's production has slumped to a mere 480,000 tons.

The invasion of commercial farms by supporters of the ruling ZANU-PF party discouraged farmers from planting and harvesting. Artificially low prices encouraged the hoarding of food, or its smuggling to other countries. With foreign exchange short, importers are struggling to get food to the towns, where shops are bare and malnutrition is spreading. The WFP already supports more than 550,000 Zimbabweans, some of whom would otherwise be surviving on roots and berries.

Making matters much worse, Zimbabwe's government is keeping food from suspected supporters of the opposition Movement for Democratic Change. Physicians for Human Rights, a relief group, says that officials demand ZANU-PF party cards from anyone registering for “food for work” schemes, as well as from those buying cheap maize from public warehouses. In some rural schools, food is withheld from children whose families are identified as opposition supporters.

Though none is as dramatically at fault as Zimbabwe's, other governments too have made matters worse. In Zambia, the irregular distribution of fertiliser and inadequate irrigation have left farmers far more vulnerable to bad weather than they would otherwise be. Malawi's government is notoriously corrupt: last year it chose to sell 167,000 tons of its emergency grain reserves, and the proceeds seem to have disappeared. Donors have since cut much of their development aid, which in turn has added to the economy's fragility. Even little Swaziland, where 144,000 need help, is out of favour with donors, because of the way its absolute monarch persecutes Swazis who demand democracy.

None of this should prevent emergency food help. The WFP, which cried loud and early about the approaching crisis, says donors are responding well, and have already given $60m of food aid to the region. Much more is needed. But, in the longer term, dumping shiploads of surplus food in southern Africa will not prevent future hunger. The need remains for cleaner government, political stability and more efficient farming methods.

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Senegal, France and football

A family affair

May 30th 2002 | DAKAR
From The Economist print edition

It's more than a game

“WE ARE like the eldest son, rebellious and respectful,” said a Senegalese reporter as he set off for the World Cup's opening match this Friday between France and Senegal. “I would say we are more like cousins,” said a TV anchor-man from Paris, having nervously predicted a 3-1 victory for France in South Korea. The French ambassador in Dakar would not be drawn on the score, but had no fear that the result would cause a march on his embassy.

The French and Senegalese are bound by cultural and historical ties that go beyond the normal post-colonial relationship. French romantics, overlooking the darker side of their country's colonial record, enthuse about Senegalese support for the French revolution. Senegalese critics complain of the influence that France retains, including a substantial stake in the economy and a discreet military presence in Dakar.

The Senegalese felt deeply hurt when neither President Jacques Chirac nor his then prime minister, Lionel Jospin, bothered to come to Dakar last December for the funeral of Léopold Senghor, Senegal's first president (and member of the Académie Française). And they were appalled when Jean-Marie Le Pen did so well in France's presidential election.

The football odds are heavily stacked in France's favour. Senegalese fans are quick to point out that Patrick Vieira, France's midfield colossus, was born in Dakar. But Senegal does not intend to let France have any more of its geniuses. Instead, Senegal's French coach, Bruno Metsu, has raided the French league, seeking out Senegalese talent and assembling a fine squad. The Lions of Teranga won a testing World Cup qualifier, came an honourable second in the African Cup of Nations in February, and were voted African team of the year.

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Libya and Lockerbie

Blood money

May 30th 2002
From The Economist print edition

Don't start spending it, yet

Reuters

Haven't I done well, if I have?

A DEAL on Libyan compensation for the 1988 Lockerbie air explosion seems close. The New York lawyers acting for relatives of some of the 270 victims say that $2.7 billion is on offer, or $10m for each bereaved family. Libya has denied making the offer, but Libyan, American and British officials are meeting next week, and Muammar Qaddafi's desire for rehabilitation gives the report a ring of truth.

One of the report's more convincing aspects is that the offer comes with hefty conditions: 40% will be handed over when UN sanctions are dropped; another 40% when America's sanctions go; and the remaining 20% when Libya is removed from the State Department's list of sponsors of terrorism. Given America's reluctance to go back to treating Libya as a normal country, the families may have a long wait for most of their money.

The first 40% should come through quicker. The UN's sanctions, banning air traffic and arms sales, were suspended in 1999 when Libya handed over two suspects for trial in The Hague (one of them, a Libyan intelligence agent, was found guilty). Compensation was one of the UN's conditions for dropping sanctions altogether, plus a renunciation of terrorism and Libya's acceptance of responsibility for the Lockerbie crime. This last is tricky, but a formula might be found that leaves Colonel Qaddafi himself unsullied.

America's unilateral sanctions, some of which predate the Lockerbie disaster, are far more comprehensive—banning trade, financial dealings and travel—and far stickier to get rid of. The conditions for ending them have become increasingly vague.

Compliance with the UN's conditions is a starting point, only. Nor is a disclaimer on terrorism quite the key issue it once was. Though the country remains a fixture on the State Department's list, American officials tend to accept that Libya, its horrid past notwithstanding, has not been directly involved in terrorist activities for several years. What preoccupies the administration now is its fear that the Libyan government may be set on acquiring weapons of mass destruction. And with Libya, as with Iraq, the proliferation charge is hard to prove, and harder to disprove.

By showing himself a reborn anti-terrorist, Colonel Qaddafi has worked busily to get back into America's good graces. He roundly condemned the attacks on New York and Washington, he is reported to have supplied America with intelligence on Osama bin Laden's allies, and he acted as honest broker in the Philippines. He has America's oil lobby powerfully on his side: the American companies that pioneered Libya's lucrative oil industry have had to stand by frustrated while half a dozen European companies go happily to work. Even so, in the post-September 11th atmosphere, neither the administration nor Congress is likely to give its blessing to a cranky, unreliable regime that is still suspected of mischief-making.

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Yemen's religious academies

From defender of the faith to terrorist

May 30th 2002 | TARIM
From The Economist print edition

Once considered a bulwark against South Yemen's Marxist legacy, the country's seminaries are now under threat

Get article background

DON'T, as they say in Yemen, black out the eyes when applying the eye-liner. For hundreds of years religious schools have been one of Yemen's most successful exports, spreading Islam across East Africa and the Far East. From California to Java, young Muslims left the material world to go to the desert oases of the Arabian peninsula in search of spiritual knowledge.

No longer. As Yemen's contribution to the war on terror, the authorities have threatened religious academies with closure, and have deported foreign students by the score. Hundreds more have dropped out to avoid being caught up in the dragnet. At the ancient mud-walled school at Tarim, the Indonesian and Malaysian pupils, who comprise the bulk of its boarders, have been asked to report to the local police, and their teachers fear a return to the pre-unity days when South Yemen was ruled by the Marxists and koranic study was forced underground.

In part, the crackdown is an accident of geography. Tarim is the religious centre of the Hadramawt: the oasis valley whose name translates as “the death of civilisation”, and is Osama bin Laden's ancestral home. Tarim's hero is a 5th-century prophet called Hud, who according to the Koran destroyed Iram of the Columns, a fabled Yemeni city of skyscrapers as high as the heavens, with “a violent wind”.

AP

Teacher and student, far removed from the hubbub

But these are confusing times for Yemen. After the union of its north and south in 1990, the central authorities encouraged the revival of seminaries, such as Tarim, in an attempt to undo the legacy of religious persecution by the Marxist southerners. Unfortunately, they overdid it.

When the southerners rebelled in 1994, the north declared a *jihad* and used religious students to fight the separatists. Fresh supplies of Arab *mujahideen* were recruited from Afghanistan, and religious schools became training camps. “In the *jihad* against communism we were the government's allies,” pleads Abul Hassan al-Masri, the Egyptian director of Dar al-Hadith, a koranic retreat in the desert beyond Maarib.

But his school was shut down earlier this year as part of Yemen's contribution to the war on terror.

How far will President Ali Abdullah Saleh's campaign go? Some of the new religious centres have so far survived unscathed. The president gave money to Sheikh Abdel Meguid al-Zindani, an Afghan veteran and a former associate of Mr bin Laden's, to build Al Eman University on government land near Sanaa. Opened in 1994, it was designed to be the Muslim Brotherhood's answer to Al Azhar, the Islamic voice of the Egyptian government. Eight years on, some of its students say that it has become the headquarters for the propagation of *jihadi* doctrines, churning out graduates such as John Walker Lindh, the American accused of fighting with the Taliban. At the university's ninth anniversary celebrations in March, Mr Zindani told his 6,000 students that the hunt for al-Qaeda was a war on Islam.

For much of the 1990s, Mr Zindani's party, Islah, shared power with the president's party. He himself was a one-time member of the five-man presidential committee that governed the country. The justice minister, who today is Al Eman University's dean, declared that some religious scholars supported the killing not only of Marxist heretics, but also their wives and children. The Education Ministry swamped the curriculum with religious texts, and established a parallel system of religious schools for at least 250,000 children.

But yesterday's defenders of the faith are today's terrorists. The Education Ministry, released from Islah's clutches a year ago, claims to have reversed six years of Islamic pedagogy. It claims to have amalgamated religious and secular schools, halved religious tuition in schools, and stripped Islah of the $80m it received to run the religious schools. The Interior Ministry has stopping anyone entering Yemen who has an Iranian, Afghan or Pakistani visa in their passport. And it says it has expelled more than 20,000 Afghan Arabs.

So far there has been remarkably little resistance, the odd explosion outside the American embassy in Sanaa and the prime minister's home notwithstanding. But ministers fear that the worst is still to come. Fadl Ali Abou Ghanem, the education minister, gives warning, from an office barricaded by a squad of crack troops, that if it had it not been for September 11th , his overhaul would have sparked a revolt. Yet he is determined to press on: “All schools, even religious colleges like Tarim, will be required to teach the state curriculum,” he says. “There will be no more extremism.”

Maybe. But the ministry has few school inspectors, and the secular syllabus will not apply to mosques running koranic schools on the side. Nor has anyone yet dared to challenge Mr Zindani directly. His treatise on theology is still part of the school syllabus. And though his chain of Al Eman cassette shops have removed Mr bin Laden's videos from their shelves, they still do a roaring trade in taped sermons of the preachers who taught and inspired the al-Qaeda leader.

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Eastern Europe

Sour Slavs in the slow lane

May 30th 2002 | KIEV AND MINSK
From The Economist print edition

kp

Russia's new ties with the West make the plight of Ukraine and Belarus look all the more gloomy

WHILE the Russian and American presidents declare ever warmer friendship between their countries, the western fringe of what was once the Slavic core of the Soviet Union, namely Belarus and Ukraine, seems destined for the time being to rot in a squalid mess of post-communist stagnation. Could that change, as Russia's president seeks to tilt his country more firmly in a new direction? Probably not while Belarus and Ukraine are run by such dire presidents.

Of the two, Belarus, with its 10m people, seems less likely to get a new leader in a hurry. Alexander Lukashenka was recently re-elected and is believed to be planning a referendum to change the constitution to let him rule on until 2015. In Ukraine, with nearly 50m people, President Leonid Kuchma looks shakier but shows no sign of bowing out soon. Plagued by scandal and gravely weakened since a general election in March, he is trying to find a safe successor to win the next contest for the presidency, due in 2004.

Mr Lukashenka is luckier. Opposition leaders in Belarus are a sorry lot who spend much time trying to coax money and attention from their western sponsors and make little effort to stir up the country's famously passive people. The president has been hurt by the country's economic woes; many Belarussians now receive their salaries and pensions late. But he is earthy and mercurial, and still the country's most popular politician. If he goes ahead with a referendum this summer, he looks set to win it. Mr Kuchma, by contrast, saw his own party win only 12% of the vote in Ukraine's recent general election, forcing him to assemble a parliamentary block from disparate clans and individuals. The biggest gains were by parties led by people who want to unseat him.

kp

Still, Ukraine's opposition parties are divided too. The Communists think Mr Kuchma too liberal and pro-western. A centrist party led by Viktor Yushchenko, a prime minister sacked by Mr Kuchma last year, wants a lot more reform but might be prepared to compromise with Mr Kuchma to achieve it, whereas Yulia Timoshenko, a sprightly former energy tycoon who leads a more radical party, wants to fight Mr Kuchma head-on.

Besides, the job of president gives Mr Kuchma a formidable arsenal. Though political dirty tricks in Ukraine pale by the

standards of Belarus, where several opponents of Mr Lukashenka have simply disappeared, Mr Kuchma's rivals face all sorts of bureaucratic and legal harassment.

This week Mr Kuchma succeeded in having his chief of staff made speaker of parliament, breaking a two-week deadlock. The question now is whether he can hang on to his prime minister, the efficient and loyal Anatoly Kinakh. In return, the different opposition parties can have other plum jobs, such as committee chairmanships or government ministries. A deal along these lines should keep Mr Kuchma's show on the road for now. The opposition parties are wary of taking too much responsibility just yet.

But that does not solve the problem of picking the next president. “The election shows there are only two potential candidates at the moment,” says a tycoon close to Mr Kuchma. “One is Mr Yushchenko. The other is whoever the Communists choose to put up. We must find a third.” That now looks hard, though the lesson from Russia, with Vladimir Putin's emergence from unknown bureaucrat to effective head of state in the space of two years, shows that post-communist politics can spring plenty of surprises.

Russia has so far tended to stand by the rulers of its neighbouring Slav states, no matter how unappetising. But might Mr Putin, now that he is so friendly with President George Bush, use Russia's power to point this pair of sluggish Slav countries in a more westerly direction? Russia's influence on both is big. In Ukraine, the Kremlin has so far backed Mr Kuchma and his friends, and has sounded nervous about the strongly pro-western Mr Yushchenko. During the election, Russia's state-controlled television, which is widely watched in Ukraine, tried, albeit in vain, to brand Mr Yushchenko an ultra-nationalist in hock to foreigners.

However, Mr Putin's own warming friendship with the West is changing the picture. Mr Kuchma and his friends now say that Ukraine's three strategic priorities are forging closer ties with NATO (with which it already has a special deal) and with the EU, and getting into the World Trade Organisation (WTO), the body that sets rules for global trade. If Russia were to switch its support to Mr Yushchenko, Mr Kuchma might be in trouble.

The bell tolls for Belarus

Messrs Putin and Lukashenka get on badly. Russia wants Belarus to liberalise its economy, largely so that Russian firms can buy up the country's main industrial assets. Mr Putin also wants Belarus to pay the full whack for the cheap energy it gets from Russia, and is refusing to give it any more easy credits. Russian diplomats no longer defend Belarus quite so staunchly. They talk a bit more to the opposition.

All this has nonetheless stopped short of trying to unseat Mr Lukashenka or backing western efforts to squeeze him out. So far Russia has broadly viewed Belarus as a loyal Slav ally and a buffer against the West. But when Russia joins the WTO, probably in a couple of years' time if it manages the necessary reforms, Belarus will face what a spokesman in Minsk, its capital, calls “very negative consequences”. Belarus is in no position to join the outfit, but would suffer gravely without its customs union with Russia.

For the time being, however, the squalor on Europe's eastern frontier poses a dismal prospect for the West. Both Ukraine and Belarus are weapons supermarkets for the worst sort of customer and provide transit for just about everything the West wants to keep at bay. The most conspicuous dignitaries in Belarus this year have been from Libya, Iran, Iraq and Syria. America complained publicly earlier this year about Belarussian sales of air-defence equipment to Iraq.

To no effect. Dozens of uninspected cargo aircraft have continued to fly this year from Minsk to Baghdad. Belarus's behaviour since September 11th has, in American eyes, been stunningly unhelpful. If Belarus-supplied weapons shoot down an American plane over Iraq, irritation could turn to fury.

For the European Union, disease, drugs and the smuggling of migrants and prostitutes from the western bits of the former Soviet Union are a running sore. Kaliningrad, the Russians' Baltic exclave for which the

EU is currently trying to negotiate a special new status, has the highest incidence of AIDS in Europe. EU officials speak of a “green corridor” for smugglers that leads from Ukraine's notoriously corrupt port of Odessa to Riga in Latvia.

While Americans are delighted with their new friendship with Russia, western policy towards Ukraine and Belarus in the past ten years has been much less successful, though Ukraine has managed at least to maintain its independence without being badly hamstrung by Russia. But Belarus and Ukraine are worrying messes on Europe's eastern frontier. It would be an irony if it were Russia, their old imperial master, that had to start nudging them in the right direction. No sign of that—yet.

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The Baltic countries

Star struck

May 30th 2002 | TALLINN
From The Economist print edition

Pop music and diplomacy are both going well for the bouncy Balts

EPA

Ever closer harmony with the West

ALONG with joining the UN, invitations to the Eurovision song contest (a televised musical Olympics much watched in Europe) signalled that the new countries of post-communist Europe had arrived on the international stage. Last year Estonia was the first post-communist country to carry off the warblers' tinsel crown. This year the victor was its southern neighbour, Latvia—thanks to a final handful of votes cast by another of the Baltic trio, Lithuania.

It is not just for devotees of cheesy music that the Balts are stars. Entry into NATO, seen only a few years ago as a highly risky provocation to Russia, now looks almost a done deal. Russia's objections are now largely muted. Negotiations to join the European Union are going well too.

Estonia, which staged the song contest this year, has done best. It was characteristic that the country's image-managers used the song-fest to launch a snazzy new national logo, designed by a fancy foreign consultancy. But there is substance too. Estonia's civil service is becoming cleaner, more efficient and electronic. The economy is growing steadily. A change of government this year has caused barely a wobble, though some serious reformers have gone.

Latvia is less happy. The country's president, Vaira Vike-Freiberga, castigates corruption and muddle in the country's administration with increasing venom. Last month she infuriated Latvia's judges with an attack on the lamentable state of justice. They complain that such words threaten their independence.

Formerly a professor in Canada, the president had more luck persuading parliament to change a law that set a tough Latvian-language qualification for election candidates, ruling out those Russians who speak it poorly or not at all. Latvia now has a clean bill of health on human rights from the West, though Russia grumbles that people who moved to Latvia in the Soviet era have to take an exam if they want citizenship.

Lithuania is making progress too, though more slowly. Its military establishment is the best among the Balts. Its current big problem is with the EU over Ignalina, a Soviet-era power station that nearby western countries, such as Sweden, want closed. Lithuania has agreed to this in principle, but only if the EU pays for building a new, safer one.

All three countries are integrating into the West in a way that would have been unimaginable only a few years ago. Their real problem is relations with Russia, which has still not formally recognised the post-Soviet borders and imposes extra tariffs on most Baltic exports. “We're trying to explain to Russia that friendship with the West also means friendship with the Balts,” says an EU negotiator. That may happen eventually. Russia's president, Vladimir Putin, could speed up the process. Will he?

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Greece's prime minister

Under attack

May 30th 2002 | ATHENS
From The Economist print edition

The survival of Greece's modernising prime minister cannot be guaranteed

EPA

Simitis tires of fending them off

COSTAS SIMITIS, the unassuming Socialist prime minister who pulled Greece into the euro-zone, may be running out of steam. Barely half-way through the current parliamentary term, his Pan-Hellenic Socialist Movement, better known as Pasok, is trailing behind the right-of-centre opposition by almost ten percentage points. For the first time the prime minister's approval rating, hitherto always higher than his party's, has dipped below that of Costas Karamanlis, the untested leader of New Democracy, an old-fashioned rightish party that has been out of government for 18 of the past 21 years.

That seems odd. By most measures, Mr Simitis has not been doing badly. He says Greece's economy should grow this year by nearly 4%; some foreign watchers think 3.2% more realistic. Either way, that is a lot faster than the euro-zone's widely predicted average of 1.3% or so. Greece's budget should show a modest surplus of between 0.4% and 0.8% of GDP. The European Union is still ladling out much of the *euro*25 billion ($23 billion) in aid allocated between 2000 and 2006 to help Greece, still the EU's poorest country, catch up a bit more before the cash starts being redirected to poorer new members from Central Europe. And preparations for the Olympic Games to be held in Athens in 2004 are at last picking up speed after an embarrassingly muddled start.

Greeks are even starting to feel less twitchy about their old regional rival, Turkey. Some are even investing there. Last month Nikos Christodoulakis, a close confidant of Mr Simitis, became the first Greek finance minister to visit Ankara, Turkey's capital. He followed the example of George Papandreou, the foreign minister, who oversaw a rapprochement with Turkey in the emotional aftermath of earthquakes that hit both countries in 1999.

True, Greece is still blocking the official launch of the EU's nascent rapid-reaction force because of lingering suspicions over an agreement among other NATO countries that Turkey, which is in NATO but not the EU, should be able to veto EU access to NATO firepower. As Mr Simitis feels the political heat at home, he is sounding more populist abroad.

On the other hand, since March Greek and Turkish diplomats and lawyers have been quietly talking, for the first time in decades, about settling a clutch of disputes over the Aegean Sea, or, if that is not possible, how to package them so that the two countries can ask the International Court of Justice at The Hague to adjudicate.

Yet Mr Simitis is under attack from all sides. A hard-left faction which re-elected him party leader at a Pasok congress last October wants to put off reforms needed to make Greece more competitive within the euro-zone. The trade unions, which overwhelmingly back Pasok, have forced Mr Simitis to water down proposed reforms of Greece's state pension system.

Meanwhile, businessmen complain that the government is reneging on its promise to simplify and reduce taxes. Employers want looser labour rules. So do young Greeks, a good quarter of whom have no job; all told, 11% of Greeks are jobless. And people increasingly tell pollsters that they are fed up with having to bribe petty officials to get permits and licences.

Worse still, Mr Simitis has to keep potential successors within Pasok at bay. He has run the show for six years but is still keen to win a general election due early in 2004 so that he can host the Olympic Games

in August. Leading Pasok people hint that the election will be held six months early, after Mr Simitis has presided over the EU in the first half of next year.

Costas Laliotis, a former public-works minister who is Pasok's secretary-general, thinks Mr Simitis is already an electoral liability and should go now. Mr Laliotis is an unlikely successor: he does not speak English and attended only one ministerial meeting in Brussels while in the cabinet. But he would like to pull the party's strings. At least four ministers would be in the running. The infighting is already undermining Mr Simitis's efforts to get decisions implemented.

For the moment, Mr Papandreou is the firm favourite to take over. American-born and British-educated, he is the modernising Mr Simitis's natural successor and would appeal to a wide range of Greeks in a general election. Many go-ahead people would plump for him, while many old-fashioned nationalists would give him the nod as son of the much more populist Andreas Papandreou, who ran Greece off and on for 11 years until he died in 1996. The younger man, now 49, has tried to avoid getting embroiled in party intrigue but no longer bothers much to disguise his differences with Mr Simitis. Mr Papandreou would like to proceed faster to hug Turkey more warmly, while the prime minister remains more cautious.

Mr Simitis may survive at least until local elections in October. Voters are then likely to kick Pasok in the teeth after its long stint in power. Dora Bakoyanni looks likely to be elected mayor of Athens under New Democracy's banner. If Pasok is humiliated across the country, Mr Simitis's achievements of sound economic management at home and improving Greece's credibility abroad will probably not be enough to save him from the chop at the hands of his party.

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France's Socialists

Looking ahead. Way ahead

May 30th 2002 | PARIS
From The Economist print edition

Beaten for the presidency, the left could lose in parliament too

Get article background

EPA

Why is Hollande so flat?

HOW times change. Only a few weeks ago, France's Socialist Party was planning first to win the nation's presidency for its candidate, Lionel Jospin, and then to tighten its hold on parliament. Now it is all at sea. Mr Jospin fell in the first round of the presidential election, on April 21st, and pollsters say the right will win a majority in the elections to the National Assembly due on June 9th and 16th. And though the Socialists offer umpteen explanations of where things went wrong, they have little idea how to put them right.

Mr Jospin having abruptly retired from politics, it is the party's first secretary, François Hollande, who somehow has to restore its morale. One way is to urge voters to prevent the right-wing parliamentary victory that would concentrate power in the scandal-tainted hands of President Jacques Chirac. He is not fit for it, the Socialists argue, for all that it was left-wing voters who helped him to his huge re-election majority in the second round, on May 5th, because they disliked his far-right challenger, Jean-Marie Le Pen, even more.

A second way is to claim that the right's programme of tax cuts will benefit the rich, not the poor. A third way is to present a Socialist programme harking back to old dogmas such as more workers' rights and an end to privatisation.

But what if those arguments fail? That would clearly be bad news for Mr Hollande, who might even lose his own parliamentary seat. Yet some of his colleagues in the Socialist Party might be secretly pleased. They reason that defeat will allow a necessary struggle for the party's ideological soul to be waged to its conclusion. While Mr Jospin, ex-Trotskyist turned pragmatist, was prime minister, from 1997 until May this year, the struggle was hidden. With the Socialists in opposition, it could be fought in the open.

Who would win? One faction, led by the party's former treasurer, Henri Emmanuelli, believes “third way” social democracy à la Tony Blair is a sham and that the party must revert to its leftist origins. In contrast, the modernisers, led by a former finance minister, Dominique Strauss-Kahn, and a former prime minister, Laurent Fabius, note that the working class is dwindling; to win again, the party must “modernise”, code for free-marketry and an appeal to the middle class.

Maybe. But Messrs Fabius and Strauss-Kahn are bitter rivals who refuse to co-operate. The reason is straightforward: both men have their eyes not on the coming parliamentary election but on the presidential election due in 2007.

They calculate that if a rightist government is elected this summer, it will have an awful lot of unpopular work to do: both to get public finances in shape (not least under pressure from Brussels) and to cope with an ageing population it will have to take on the public-sector unions, slim the civil service and reform pensions, tax, education and health care. In sum, it will be a good time to be out of government.

Too bad for them that the man who today looks the likeliest future presidential candidate of the right, Alain Juppé, a former prime minister now mayor of Bordeaux, also has chosen to stay out of government. And he can look forward to a bigger war-chest. Any party with more than 50 candidates at the legislative elections later gets financial help from the state: for example, each vote in the 1997 election brought

*euro*1.66 (about $1.50) last year to a party's coffers, and each seat won another *euro*45,398 ($41,800).

That, say cynics, explains why Mr Juppé was so keen that the parties of the right should unite (only François Bayrou and the rump of his Union for French Democracy stayed apart) in the new “Union for the Presidential Majority” (UMP). Ostensibly, the idea is to help Mr Chirac. But by nominating 537 candidates for next weekend's vote, the UMP will have oodles of public money for Mr Juppé's presidential bid in five years' time, and no other party on the right will have much to support a rival bid. In contrast, the left is divided—which makes for interesting debates, but not such fat state hand-outs.

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Italy's prime and foreign minister

Enjoying himself

May 30th 2002 | ROME
From The Economist print edition

Silvio Berlusconi likes holding two government jobs at once

AP

All the world's his stage

HE JUST loves it. Silvio Berlusconi seems happiest when he can spend a whole day with heads of state and fellow prime ministers. He believes that his charm and salesmanship, qualities that helped make him Italy's richest man, will secure his reputation on the world stage. When he decided to become his own foreign minister last January, after Renato Ruggiero resigned from the job in a huff, most pundits at home and abroad doubted he could handle both jobs. Now, despite a flurry of diplomatic gaffes when he was merely prime minister, the tycoon turned politician seems to be confounding them.

This week he enjoyed basking in the global sunlight at a meeting between NATO leaders and the American and Russian presidents at a seaside airbase near Rome. Mr Berlusconi schmoozed with the guests of honour (merrily referring to one of them as “George Dubya”), played the piano for the assembled bigwigs, told them the story of the founding of Rome (and jovially muddled up the founders' names), congratulated NATO's secretary-general, Lord Robinson (ie, Robertson), on his navy-blue tie. He treated the event as his private party. He whooped it up. He personally oversaw the prettification of the airbase. He even told the photographers how to do their job. His distinguished guests seemed to enjoy it.

“It was one of the best days of my life”, he declared at the party's end, “and all the credit goes to us.” Mr Bush was pleased that Italy's prime minister, unlike some others in Europe, has been unequivocal in his support for the United States since last September. Mr Berlusconi took the opportunity to propose Sicily, where his party and its allies won every seat (a record) in last year's general election, as the venue for the next Middle East peace conference.

In sum, the prime minister is so much enjoying his additional job of foreign minister that it can no longer be assumed that he will put someone else in the post any time soon. “Mr Berlusconi is such an unusual character that foreign leaders are first puzzled, then pleased,” explains an Italian ambassador. “He slaps them on the back, plays the piano after dinner, invites the lady singer to dance with him. He's good at that. Still, there's a lot of routine business to take care of at the foreign ministry. A full-time foreign minister would help.”

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The European Union's fish

Thrashing around

May 30th 2002 | BRUSSELS
From The Economist print edition

The row over who should catch Europe's fish, and where, is not over

Get article background

THE European Commission insists that fish stocks in European waters are running out. Its proposed response—to slash the size of Europe's fishing fleets—was bound to stir up a row. But the furore surrounding the proposed reform was stoked up even more by the sudden sacking last month of the top official overseeing the reform, by the Spanish government's heavy-handed lobbying, and by repeated delays in publishing the actual proposals.

On May 28th the commission finally unveiled them, insisting that it had stood firm against all pressure. Certainly the cries of anguish from prominent fishing countries suggested that the proposed cuts will hurt. Loyola de Palacio, a former Spanish fisheries minister who is also a vice-president of the commission in charge of energy and transport, complained to the fisheries commissioner, Franz Fischler, that the proposals were “brutal” and would not protect fish stocks. Luis Frazao Gomes, a Portuguese fishing minister, said his country's fishing industry would “die”.

In fact, the commission's proposed reduction of 18% in the tonnage of the EU's fishing fleet sounds like a fairly modest response to “the risk of stock collapse”. What is more, the Spaniards, who have Europe's biggest fleet, will get off relatively lightly. Because the most alarming dwindling in stocks is in northern waters, from which Spain has been largely excluded, the commission is assuming a reduction of just 13% in the Spanish fleet's tonnage, compared to a cut of 29% for Britain's.

So why the yelps of pain from Spain? First, because the cuts in the European fishing fleet will be deeper than the tonnage figures suggest. The commission is also proposing reductions of between 30% and 60% in “fishing effort”—the amount of time that boats can spend at sea. As a senior commission official points out, even if fishing trawlers are not actually destroyed, many are likely to find it uneconomic to continue under such conditions.

Second, because the commission is also proposing that there should be no more subsidies for modernising fishing fleets. At the moment, most of the *euro*300m a year that Spain gets in aid to its fish industry goes to revamping boats rather than scrapping them.

Finally, the Spanish suspect they have been diddled over access to northern waters. Under agreements negotiated when Spain and Portugal joined the EU in the 1980s, the two countries' fishing fleets will get access to the North Sea at the end of 2002. But the commission points out that they are unlikely to be allocated quotas letting them actually fish these new waters, since they are dished out largely on historic grounds. The Spanish are crying foul. The matter may end up in court.

Though Spain has been easily the loudest opponent of reform, France is likely to be just as obdurate. Indeed, it seems that the commission's proposals, at least in their pure form, are likely to be rejected when presented to the countries of the EU. That suggests that they will either be watered down, probably by allowing some continuation of aid to boat-builders and larger quotas, or deadlocked.

The commission is hoping that its tough stance will at least put to rest the allegations that Steffen Smidt, the director-general of its fisheries department, was sacked as a result of Spanish pressure. But it may not be that simple. Testimony to the European Parliament by two commissioners, Mr Fischler and Neil Kinnock, who is in charge of administrative reform, has not satisfied Euro-MPs. Indeed, Mr Fischler may have inadvertently added fuel to the flames by speaking of a Spanish “witch-hunt” against Mr Smidt and by suggesting that Spain's fisheries minister, Miguel Arias Canete, might have violated European law if,

as Mr Canete had suggested, he had “instructed” Spain's commissioners to block the reforms. In response to complaints from Euro-MPs, Jacob Soderman, the EU's ombudsman, has suggested setting up a special committee of inquiry by the European Parliament to get to the murky bottom of the events.

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About sponsorship

Europe's Galileo satellite positioning system

Eppur si muove—or maybe not

May 30th 2002
From The Economist print edition

The Pentagon's Global Positioning System can tell you where you are. The EU reckons it needs a rival system. The Americans are upset

AS NATO'S leaders hobnobbed cheerfully in Rome this week and half-welcomed Russia into their ranks, a storm was gathering in the heavens which could spoil the transatlantic party.

At issue is the European Union's plan to launch a network of 30 satellites, known as Galileo, that will duplicate (and, its supporters say, significantly improve) the job now done by a cluster of American military satellites called the Global Positioning System (GPS). That job is to tell everyone and everything that needs to know (from drivers, pilots or yachtsmen to falling bombs) exactly where they are.

EU governments agreed in late March to fund the first phase of Galileo: their tax-payers will put up the initial *euro*1.1 billion ($1 billion) of a project whose (supposed) total cost will be *euro*3.6 billion, including *euro*1.6 billion from private companies—if these can be convinced of the plan's viability. To sceptics, the whole project is a prize example of European posturing: just when many Americans despair of their allies' willingness to spend on defence, Europe plans to hurl money at a service the Pentagon already provides, gratis, to all-comers.

Most European statements about Galileo present it as a purely civilian enterprise, designed to help geologists locate minerals, shippers track merchandise, and transport of all kinds keep better time. It will pinpoint users' locations on the globe to within a metre; for civilians, the American system now has a ten-metre margin of error. But the Americans may have cut this to three metres or less by 2008, when Galileo will be working.

Three metres or one, who cares? Some civilian users do, an EU study showed. Port authorities engaged in costly dredging projects, and the owners of snow-ploughs trying to steer safely along snow-covered roads were among the examples cited.

The other people who require pinpoint accuracy, of course, are generals. More than half of the American munitions dropped on Afghanistan, for example, had handy little strap-on kits that enable “dumb bombs” to follow GPS signals. For now, any other western army which uses satellite guidance virtually has to rely on GPS, though in theory they could use a faltering Russian system called GLONASS.

So the advent of Galileo has huge military implications, as France, in particular, notes with quiet enthusiasm, and America observes with quiet horror. In any conflict, keeping one's own satellite-guidance systems intact, and denying such guidance to enemies, will increasingly mean victory or defeat. The advent of Galileo could make that task harder for the Pentagon.

What especially alarmed the Americans, as Paul Wolfowitz, America's deputy defence secretary, pointed out in an angry letter to his NATO counterparts at the end of last year, was a European proposal to use parts of the spectrum very close to those used by the Pentagon. This could mean interference from one system affecting another; and, worse still, it would make it harder, in the event of war, for the Americans to jam Galileo—so as to deny it to hostile forces—without disrupting GPS signals used by their own armed forces.

As for civilian applications, the choice is not just between three metres or one; it is between one system or two, with huge prizes at stake for aerospace companies. With deft handling, the row over Galileo may yet turn out to be one of those transatlantic spats—over food standards, say, or aircraft-landing rights—in which both sides issue dark warnings but draw back from an all-out clash. Many European bureaucrats see it that way; but as this row involves defence as well as economics, it could get more serious.

American policy towards Galileo rests on two premises: first, there is “no compelling need” for such a system; but, second, if the Europeans see such a need, at least the rival systems must be compatible—and avoid the risk of what Washington would consider unfair trade practices. Americans fear that EU regulations might mandate the use of Galileo-based navigation systems (by aircraft, for example), distorting competition and imposing needless costs.

Since the State Department has responded to the EU decision with a call for accelerated talks, some in Europe claim that their display of strong nerves, in the face of American hostility, has been vindicated. “It's clear that the Americans didn't want Galileo to happen, because it complicates their lives—but now that it is happening, they are willing to bargain,” says one European space executive.

John Pike, director of GlobalSecurity.org, a Washington-based defence consultancy, retorts that America's military establishment views Galileo with something between contempt and outright hostility. “There's no way to accommodate American concerns, except not to build Galileo,” he argues. In his view, the United States has not, as yet, raised the diplomatic temperature, mainly because it doubts that Galileo is viable, and hence expects it to stumble at some point, due to costs.

It'll cost. But how much?

How likely is that to happen? For Europeans, the main point of reference is a study completed late last year by the accountants of PricewaterhouseCoopers, which gave some comfort to sceptics and supporters alike. Galileo would cost *euro*200m more than the commission had estimated, said the number-crunchers, but the annual revenues it could generate would be as much as *euro*515m by 2020. Direct revenues alone would not justify the project; but taking into account broader economic gains (air-traffic control, marine navigation and passenger-vehicle guidance), the ratio of benefit to cost would be as high as 4.6 to one.

Supporters argue that the overall cost of *euro*3.6 billion is no vast outlay of public money—the equivalent of building 150km (93 miles) of semi-urban motorway; and that the scheme would create at least 100,000 new European jobs. But Americans have questioned the PWC report. Suppose Galileo is not built, and GPS continues to offer steadily improving services to civilians: how accurately can one calculate the economic consequences of that scenario? The PWC estimates assume that the Galileo networks will become operational, as planned, by 2008, before a new version of GPS becomes available. If the timetable for Galileo slips, so will any hope of having a competitive advantage.

Within several EU governments, there have been sharp internal debates about Galileo. Britain's defence ministry and treasury had their doubts; the industry ministry is in favour. And both Britain and Germany have queried the EU bureaucracy's ability to manage the project.

Britain, in particular, has insisted that all public statements about Galileo should stress its civilian applications. French and Italian officials are keen to ensure that, as well as offering purely civilian services, Galileo should emit an encrypted “public service” signal which, though not exactly military, would be provided to emergency workers such as fire brigades and ambulances. To Americans, this smells of a European bid to end America's monopoly control of satellite-guided weaponry.

On the civilian side, if the two sides' technicians can reach agreement fairly swiftly on common standards, Galileo satellites may still be able to mesh neatly with the GPS system. In particular, since one of the functions of both systems is to provide ultra-precise timing (useful for stockmarket traders and traffic-control systems), it is vital that their clocks be synchronised.

But with Boeing and Lockheed Martin due to put a new set of GPS satellites into orbit next year, the giants of American aerospace insist that it is too late for them to make big enough changes to keep the Europeans happy; the onus will be on Galileo to adopt standards compatible with the older system.

Watch this space

The main European arguments in favour of Galileo are that GPS does not work well in polar latitudes, nor in heavily built-up environments. Given the weaknesses of the American system's 24 satellites, wouldn't any user prefer to have access to a total of 54 satellites for extra accuracy?

Some American officials, including General Ed Eberhart, head of the Pentagon's Space Command, have indicated that Galileo's effect could be neutral at worst, beneficial at best—but only so long as Americans and Europeans agree on common standards and avoid hurting each other's defence interests.

It remains to be seen whether they can. This quarrel epitomises many of the institutional contrasts between the EU and the United States. On the European side, the issue has been handled by transport ministers and European Commission bureaucrats with no mandate for, or experience of, dealing with the life-or-death issues of geopolitics and war. The risk exists that the EU's permanent bureaucrats, who have a culture of sparring endlessly—but harmlessly, most of the time—with the Americans over commercial issues, could stumble into a transatlantic defence row they never quite expected.

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Charlemagne

Is Margaret Thatcher winning in Europe?

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From The Economist print edition

The ideas of Britain's former leader still provoke hostility and admiration across the continent

A SPECTRE is haunting Europe, the spectre of Margaret Thatcher. These days Lady Thatcher, warned off public speaking by her doctors since she fell ill last autumn, is as silent as a ghost. But while her voice is no longer heard, her ideas continue to resonate through European politics.

Warnings about the dangerous spread of “Thatcherism” have again become a staple of left-wing politics across the European Union. In Spain, as trade unions gear up for a general strike this month just before a grand EU summit in Seville, they have attacked Jose Maria Aznar, the prime minister, for pursuing “the most reactionary policies of Margaret Thatcher”. In France, the Socialists have accused President Jacques Chirac of wanting to emulate “the iron lady” by “destroying public services”.

Across the continent, politicians regularly feel the need to define themselves as for or against Thatcherism. Guido Westerwelle, who leads the Free Democrats, Germany's liberals, recently felt compelled to say that while he favours slashing state spending, he is “no Thatcherite”. Meanwhile Belgium's prime minister, Guy Verhofstadt, is still trying to peel off the “baby Thatcher” label that was stuck on him when he was a radical young reformer. By contrast, Italy's prime minister, Silvio Berlusconi, and some of his senior ministers have made it clear how ardently they admire Lady Thatcher and believe that Italy needs a dose of her free-marketry. In the Netherlands, Pim Fortuyn, a populist right-wing politician who was assassinated just before the Dutch general election last month, had spoken of borrowing Lady Thatcher's handbag in any future dealings with the EU. Even Jean-Marie Le Pen, the far right's candidate in the French presidential contest, cited Lady Thatcher's “manliness” as the right quality with which to tackle the trade unions.

Of course, any political figure as vivid as Lady Thatcher is unlikely ever to disappear from the political lexicon. But Thatcherism remains so live an issue inside the EU because many of the battles she won in Britain, particularly over trade-union reform and privatisation, are still being fought out on the continent. Messrs Berlusconi and Aznar, among several other leaders, would love to “do a Thatcher” on their unions, but have provoked general strikes by broaching reforms of the labour market. Left-wingers, meanwhile, fear the spread of what they see as an “ultra-liberal virus” from Britain. Much as British mothers once frightened their children with threats of “Boney” (Napoleon), so French Socialists now send chills down each other's spine with talk of Thatcher. When she came out in support of Chile's General Augusto Pinochet in his fight to avoid extradition from Britain a few years ago, it confirmed their feeling that it is but a short step from trade-union reform to torture.

There is, of course, a rich irony in all of this. When Mrs Thatcher was drummed out of office in 1990, it was largely because her attitude to Europe appalled many leading figures in her party. The iron lady had concluded that the Union posed an increasing threat to much of what she had achieved in Britain. Over the past decade she has repeatedly made it clear that she feels that she was betrayed and deceived by those who convinced her to sign the Single European Act of 1986, which, in the name of creating a single market, ushered in a huge extension of majority voting within the EU and thus a big erosion of British (and every other EU country's) sovereignty.

But while Lady Thatcher worries that the Union has been chipping away at her legacy in Britain, many on the European left have an opposite fear. They attack the European Commission for exporting liberal economics. As a result of the single market, national monopolies have been broken across Europe and once-protected economies exposed to foreign competition. French trade unions rage that the European Union is now forcing France ineluctably along the road towards ending state monopolies in energy, postal services and rail freight. The commission's proposals to promote a pan-European code for corporate takeovers and to create a single market for financial services have also met resistance from Europe's left

and from the anti-globalisers, who see such ideas as evidence that the EU is little more than a tool of big business. The EU's attack on state subsidies to industry also rattles defenders of Germany's model of “Rhineland capitalism”. They fear that this will mean that German coalminers will eventually go the way of their British colleagues under Mrs Thatcher, as she then was.

Trick or treat?

So did the lady actually win—and just not notice her victory? Inevitably, it is more complicated than that. It is pretty clear that as prime minister she may have failed to understand that the ramifications of the Single European Act would go well beyond mere economic liberalisation. In Brussels, eager enthusiasts for more European integration on all fronts still cackle with amusement over how Mrs Thatcher was persuaded unwittingly to sign away so much sovereignty. It is also true that to achieve the single-market programme, the British had to concede the idea of a “social Europe” in the shape of a set of norms on everything from safety at work to the length of the working day.

It is these sorts of measures which have so infuriated Lady Thatcher and persuaded her that she had “rolled back the frontiers of the state in Britain, only to see them reimposed at a European level”. Since Britain had already experienced Thatcherism at home, the European Union's effect on British economic policies has been, as she feared, to re-regulate parts of the economy and to move Britain closer to the European “social model”. But for much of the rest of the Union, with far more regulated labour markets and higher levels of state aid to industry, the EU's single-market project has indeed led to a dose of Thatcherism. European unity has led to compromise—and unhappiness—on both sides of the channel.

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Correction

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In *The Economist* of May 11th we said that “at the height of the mad-cow furore, the only [European] commissioners to vote against [the ban on British beef exports] were the commission's two Britons”. In fact, Britain's then commissioners, Leon Brittan and Neil Kinnock, did not vote against the ban. Our apologies.

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Queen Elizabeth II

Twenty-five out of fifty

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Reuters

After half a century of the queen, it's time for a performance review

Get article background

FEW people enjoy pooping parties. So most British republicans—already hushed into respectfulness by a brace of royal deaths—will grimace and bear the celebrations of the queen's Golden Jubilee. It seems a churlish time to attack the principle of monarchy, or vulgarly assess the economics of keeping the royals in the style to which tourists have become accustomed. But it is a good time to ask a more specific question: has Elizabeth II been a good queen?

Most press coverage offers little help to any loyal subjects wishing to make an informed assessment. Newspapers gush with abstract nouns to describe the monarchy's virtues (“continuity”, “symbolism”, and so on), and equally vague ones to describe those of its current wearer (“duty”, “dignity”, etc). Longevity is often cited as an adornment in itself—although the misremembered reigns of queens Victoria and Elizabeth I suggest that quantity can tend to obscure variable quality.

All this sycophantic guff reflects widespread ignorance about what the queen has actually done. That's partly because, unlike her father's reign, the waxing British prosperity and waning influence of her 50-year tenure has not included a single, seismic event that defines it. And, like her country's constitution, her job description is sketchy. But (believe it or not) that constitution still affords her some powers—and in discharging these, at least, she has done pretty well.

Walter Bagehot, a Victorian editor of *The Economist* and still a constitutional authority, thought “the greatest wisdom of a constitutional king would show itself in well-considered inaction”, a dictum that this queen has obeyed. By all accounts—even that of Margaret Thatcher, whom she apparently didn't like—her audiences with prime ministers have been helpful. She has been a useful diplomatic bauble. Her worst and possibly only constitutional misjudgment was in 1963, when, after some Tory shenanigans, she was arguably gulled into making the 14th Earl of Home prime minister. Unlike her husband, she has kept her opinions to herself.

Except, that is, in relation to the Union and the Commonwealth—an association of former colonies of which she is head, but with which some of her prime ministers have been rather less enamoured. She deserves some personal credit for salvaging this generally benign successor from the wreckage of empire; Lord Owen, a former foreign secretary, says she has deployed “very considerable skill” in negotiating with Commonwealth leaders (some of whom, for equally undemocratic reasons, have been

around for nearly as long). Lord Owen emphasises the queen's mollifying role at the Lusaka conference of 1979, which led to the creation of Zimbabwe.

Such charm is not always evident at home: Queen Elizabeth II was Britain's inaugural television celebrity—many first sets were bought to watch the 1953 coronation—but her broadcasts tend to be pedestrian. She has sometimes been slow to respond to national disasters, though she has paid countless encouraging visits to schools, hospitals and charities.

Could have tried harder

Of course, the most important duty of any monarch is to produce an heir. The queen and Prince Philip managed one almost immediately; but, alas, dynastic obligations also involve happily marrying off one's heirs to secure the line—and here the queen has been less successful.

Like many traditions, the idea that the royal family should also be an ideal one is a fairly recent invention. As Bagehot pointed out, “a little experience and less thought shows that royalty cannot take credit for domestic excellence”. Earlier royal offspring have strayed and been just as (over) exposed. But however novel, when Elizabeth II was crowned, the idea was a powerful one. It didn't last: with her sister and three of her four children divorced, the queen's clan is even more fissiparous than most modern families.

How far the vicissitudes of her children's marriages are the queen's fault is, as in any family, obscure. Perhaps, as with many career women, some parental neglect was inevitable; as with most upper-class people of her generation, so was a certain reserve. The abdication of her uncle, Edward VIII, in 1936, because of his scandalous love for an American divorcee—a scandal that indirectly made Elizabeth queen—may have inculcated a damagingly narrow attitude to propriety.

But the more important question raised by all the royal peccadilloes—and the most important one of her reign—is how far the monarchy ought to change with the country it represents. Ben Pimlott, a royal biographer, praises the queen's “extraordinary ordinariness”. Many observers friendly to the monarchy argue that it needs to become more ordinary—marry commoners, live humbly, and so on. Like many of her predecessors, the queen has humoured some of her subjects' whims—for instance, by eventually agreeing to pay tax—but, so the argument runs, not enough of them.

Keep it unreal

This theory was widely advanced amid the hysteria provoked by the death, in 1997, of Princess Diana—one of the few occasions on which Queen Elizabeth has been personally criticised by the media. She was browbeaten into lowering the flag at Buckingham Palace to half-mast and sharing her grief with the nation; she was told that her dynasty needed to be more like Diana if it wanted to survive.

Yet it is just possible that the error has been in the other direction. Bagehot famously argued that “We must not let in daylight upon the magic” of royalty; the queen has done just that. In 1969, she acquiesced in the making of a documentary called “Royal Family”, which though innocuously deferential, paved the way for, in 1987, “It's a Royal Knockout” (a rumbustious, preposterous game-show), and helped to generate an irreverence that culminated in the scandals of the 1990s.

Of course, other factors, such as the salaciousness of the media (and, indeed, of everybody else), contributed to the debacle. But it might have been better to at least try to preserve the dignity and theatre of monarchy: the Queen Mother's funeral suggested that that sort of thing is still rather popular. (Bagehot predicted that “The more democratic we get, the more we shall get to like state and show, which have ever pleased the vulgar.”)

In sum, the queen has discharged her formal duties and obligations well enough, but also allowed their majesties to lose their majesty. Like any other CEO, she is ultimately accountable for these mistakes. Still, despite prophecies to the contrary, the Jubilee celebrations will probably be a success, just as they were in 1977 (an extra day's holiday will no doubt help to convert the sceptics). But, for many reasons beyond the queen's control, and a few within it, the long-term future of the monarchy is less rosy. Her successors will face an even bigger struggle to work out a job description than she has.

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Patient confidentiality

Who's looking at your notes?

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Worries are growing about who has access to patients' information

AS PART of the reform of the National Health Service (NHS), the government has promised a more user-friendly system “where the patient is in the driving seat”. Key to this is informed consent, giving patients more say in their dealings with the NHS. But a new piece of legislation, which comes into force on June 1st, has some worried that the government is taking back the wheel.

At issue is whether medical professionals, other than those directly involved in treatment, should be allowed to see confidential records without the patient's consent. The new law permits those compiling databases, doing research or planning care in cancer and communicable diseases to do just that, subject to a number of checks and balances. David King of the Human Genetics Alert, a watchdog, argues that it does not do enough to encourage researchers to seek consent or to use anonymised information.

The regulations formalise common practice. Cancer registries, for example, get their information from hospital records, pathologists' reports and death records. To compile this data accurately, they need a way of linking one set of information to another. At the moment, the only way to do this is to look at confidential information in these records, such as names and addresses. The supposed justification for allowing cancer registries to use this confidential information is the principle of “implied consent”—meaning that by seeking treatment in the NHS, patients implicitly agree to the use of their information.

This cosy tradition has been shaken by several recent developments. New legislation, such as the Data Protection Act and the Human Rights Act, is intended to give individuals more control over how their personal information is used now that it can so easily be zapped from computer to computer. Growing wariness has been sharpened by scandal, such as the mess at Alder Hey Children's Hospital in Liverpool in which a pathologist was discovered to have been removing children's organs after death without their parents' permission. In 2000, the General Medical Council, the profession's own watchdog, recommended that consent be sought before personal information is handed over to registries. As a result, four hospitals in Merseyside stopped sending their data to the local cancer registry.

But researchers, such as Michael Coleman at the London School of Hygiene and Tropical Medicine, argue that consent and anonymisation are not always possible, and that without access to data, work that is in the public interest will stop. Angus Nicoll, head of the Public Health Laboratory Service Communicable Disease Surveillance Centre, maintains that the value of registries and databases lies in their completeness; if consent is required, and some withhold it, datasets will become biased and so less useful. He points to the Hamburg cancer registry, where demands for consent led to a 70% drop in submissions.

Some infectious diseases are already “notifiable”, meaning that doctors are legally obliged to hand over patient details to public health authorities without consent. However, many other scourges, such as variant CJD or salmonella, are not. Dr Nicoll worries that if consent were required, disease could run riot in the time it would take to obtain the information—such as people's addresses—needed to track down the source of infection.

For the moment, the researchers have got what they want, but the government has said that the amendment is a temporary measure, and will be reviewed annually to take account of progress in electronic record-keeping, anonymisation and encryption of data which might eliminate the need for identifiable information. Still, as critics point out, the temporary has a habit of becoming permanent.

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Transport policy

Hello Darling

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With Stephen Byers's resignation, a new man has Britain's worst job

Now where's that chalice?

OVER the past half century, cabinet ministers have gone in and out of the revolving door of the Department of Transport at the rate of about one a year. Apart from Ernie Marples and Barbara Castle in the 1960s, none has prospered. When Stephen Byers, the department's latest casualty, was offered the job after Labour was returned to power last year, he said that two words immediately sprang to mind: “poison” and “chalice”.

Alistair Darling, his successor, is faced with the same legacy of a poorly maintained and planned transport network which has been starved of investment for decades. He will also have to address the question of how to restrain traffic and reduce congestion without alienating voters. It is an issue which frightens the prime minister, who tends to believe in focus groups, and focus groups do not like the idea of politicians getting between them and their cars. There are no easy solutions in transport.

Mr Darling does, however, have some advantages over Mr Byers. Unlike his predecessor, he wants the job and is interested in the subject. In the early 1980s, before he became an MP, he was a councillor in Edinburgh and served as transport convenor for the Lothian region. One of his colleagues there was David Begg, now chairman of the Commission for Integrated Transport, an official advisory body, and an influential advocate of the need to restrain traffic by price. As MP for Edinburgh Central, Mr Darling will also have followed closely the controversy over Edinburgh's plans to introduce congestion charging by 2006.

The new minister's grey image—enhanced by his prematurely white hair—could be useful in a department traumatised by his predecessor's antics. He does not court publicity and he is not a spinner. He is said to be ruthless and non-ideological. Both qualities should stand him in good stead in his first task, which will be to make sense of the government's ten-year transport plan. The plan, which is supposed to improve the road network and public transport while restraining traffic, was described last week by the House of Commons transport select committee as “incoherent and unbalanced”.

Mr Darling will have to decide how far he can go in backing congestion-charging without incurring the wrath of Mondeo man. Decisions on new motorways and trunk routes cannot be put off for long because the lead times for transport investment are so long. The mess on the railways, caused by the de facto renationalisation of Railtrack, will also have to be addressed. Its successor, Network Rail, a not-for-profit company, is meant to take over running the track by August. But already it is clear that Network Rail needs at least £9 billion more than the government has budgeted for if it is to carry out the backlog of maintenance and investment necessary to get the system working properly.

Mr Darling's close relationship with the chancellor—they are old Scottish allies—is crucial. Tensions between the two departments have got in the way of making and implementing transport policy. If Mr Darling can reach an accommodation with the Treasury based on the need for investment in both road and rail accompanied by congestion-charging, he might have a chance of clearing up the mess Mr Byers has left behind him.

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London's roads

The war against the car

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Is the mayor making congestion worse so that people will welcome tolls?

AT SEVEN o'clock in the morning of February 17th next year, a ring of 200 cameras, linked to computers programmed to recognise licence plates, will start scanning 40,000 number plates an hour. The 250,000 motorists who drive into 21 square kilometres (eight square miles) of the city centre between 7am and 6.30pm every day will have to pay £5 a day for the privilege. Those who fail to do so will face an automatic £80 penalty unless they fall into one of several exempt categories, such as taxi drivers or nurses on duty.

London's mayor, Ken Livingstone, needs the scheme to be seen to work. He is up for re-election in two years' time, and has staked his political future on congestion-charging.

In the run-up to the introduction of the charge, congestion has been getting noticeably worse. Over the past two years, average traffic speed has dropped from 10 miles an hour to nine—slower than at any time since the car took over from the horse and carriage. This, say the mayor's critics, is not a coincidence. They maintain that Mr Livingstone is deliberately making things worse before his scheme is introduced so that it will appear to work miracles. “The whole thing is a huge con,” says Daniel Moylan, the deputy leader of Kensington and Chelsea Council, which is backing a legal challenge to prevent the mayor going ahead.

Derek Turner, who, as managing director of Transport for London, is responsible for introducing the charge, acknowledges that traffic congestion has got worse over the past few months. One reason is that space and time on the roads are being taken away from cars and given to buses, pedestrians and cyclists. The combination of new bus lanes, longer red traffic lights and more pedestrian crossings inevitably means more delays for drivers.

The timing of traffic lights is being subtly changed all over London. Small alterations can have big effects. A few seconds' difference can affect traffic for several miles. “Double-cycling”—traffic lights which allow pedestrians twice as much time as cars at busy crossings—has also been introduced in some places. Living Streets, formerly the Pedestrians Association, has long described this as its “holy grail”. Work to install transponders to allow the mayor to change the timing of traffic lights at a flick of a switch has temporarily made the situation even worse.

The impact, as London's drivers are finding to their cost, can be painful. Crossing Bloomsbury Street, just by the British Museum, it can often take southbound traffic up to ten minutes to get through a single red light. Forty seconds out of every minute are devoted to pedestrians, leaving 12 seconds for one stream of traffic and eight for the other. Traffic on roads leading into Trafalgar Square is targeted for restrictions because planners are preparing motorists for its partial pedestrianisation next summer, when it will cease to be a giant roundabout and become a fairly peaceful public space once more.

Another area badly affected by construction is Vauxhall Cross, one of the capital's most important road interchanges. The place is a huge mess, in preparation for a new bus station, pedestrian crossings and a new one-way system. The work is due to finish next March, just after charging is introduced.

Will the mayor's ambitious scheme work? One concern is whether London's transport system will be able to cope with 20,000 people who are expected to abandon their cars each day and opt for public

transport. There will be 200 new buses and more buses on the busier routes. But the tube is already badly overcrowded at peak hours and can only get worse in the near term. There are also bound to be traffic problems near the boundaries of the tolled area as car drivers skirt around its edge to avoid paying the fee.

But if the scheme survives the inevitably difficult transition period and the computers don't collapse, the mayor's political prospects do not look bad. Those who drive cars in the centre of London during the day are a tiny minority compared with the millions who walk or use public transport. The mayor has his critics; but even they recognise that he is good at counting votes.

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Preservation

Hideous but historic

May 30th 2002 | UPPER HEYFORD
From The Economist print edition

English Heritage wants to save a former USAF base

ON A rainy May morning, the former US Air Force base at Upper Heyford is not a pretty sight. Barbed wire bristles around concrete command centres; 56 blast-proof hangars loom over the lush Oxfordshire fields; shopping malls and bowling alleys moulder away. The 1,250-acre base was once the biggest in Europe. But the Americans left in 1993, most of the site is eerily empty and the council wants to bulldoze the whole thing.

It may not get its way. Last month, English Heritage recommended that parts of the base should be listed as scheduled monuments, which would make them virtually untouchable. It is particularly keen on the command bunkers, the Quick Reaction Alert area—from which nine F111 bombers were primed to go in three minutes—and the bomb storage area, which everyone knew, though no one admitted, housed nuclear weapons. “The sheer scale and base functionality of the structures”, it argues, “illustrate the reality of the struggle with Soviet Communism.” David Went, the inspector in charge, thinks they also have merit as “stark and brutalist” architecture.

Hideous, more like. But the council looks set to cave in—mainly because the North Oxfordshire Consortium, a group of developers appointed by the Ministry of Defence to exploit the site, got there first. The consortium has lodged a planning application for 1,000 houses; Keith Watson, its chief executive, wants 5,000 eventually. The council prefers to tack housing on to existing towns. Better, says Mr Watson, to build on the base than to grass it over and plough up fields elsewhere. And better, therefore, to let English Heritage keep bits of it.

Even that would not satisfy the Oxford Trust for Contemporary History, which has been campaigning noisily to preserve the whole complex. Its secretary, Frank Dixon, thinks it has the potential to become a World Heritage Site. Back in the real world, the most likely outcome is a fudge. The council will get some of its green space; the developers will get some of their houses. They have made a good start on improving the more habitable bits of the site: narrow-boats are being built in one building, technology start-ups have taken over others. Even the mammoth bomb store has a new use: most of Britain's fireworks are now stored there.

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Scotland's capital

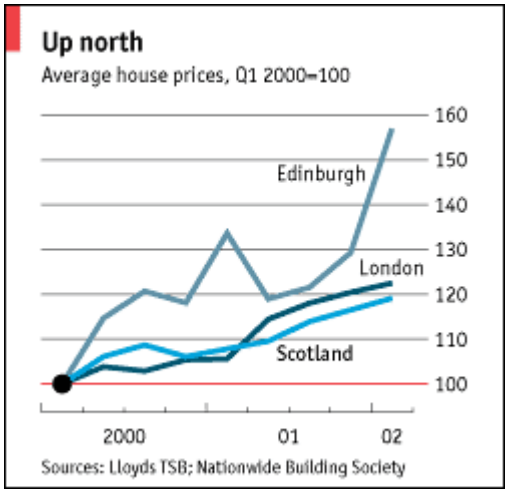
It's hot up north

May 30th 2002 | EDINBURGH
From The Economist print edition

Edinburgh is doing so well that it's replicating London's problems

FOR decades, Scottish politicians griped that monetary policy was focused on cooling the south-east of England's over-heated economy, causing pneumonia in the north. But now interest rates are low and the Scottish capital is running a high temperature. The most obvious symptom is what's happening to house prices.

House-price inflation in Edinburgh has outstripped not just the rest of Scotland, but even London (see chart). This is not because devolution has created lots of new political and administrative jobs, but because of growth in financial services, the city's biggest industry.



Scottish banks have been growing, partly through takeovers and mergers. An internet bank, Intelligent Finance, which the Halifax started two years ago, now employs about 2,000. The big life-insurance firms and fund managers are prospering. Edinburgh firms manage about £325 billion of funds, putting the city close to par with Frankfurt for fund management. The activity has prompted American firms, such as State Street bank and the Bank of New York, to move in. With expansion in IT and tourism, Edinburgh's planners reckon that another 30,000 jobs will appear by 2015, making the city, according to Cambridge Econometrics, a consultancy, the fastest-growing in Britain.

All this good economic news has brought problems familiar to Londoners. House-price inflation, fastest at the top end of the market, has made moving to Edinburgh more attractive to London financiers: they no longer fear slipping down the London ladder if they have to move back. But it is harder for younger and poorer people to buy. Banks and public-sector employers find it difficult to recruit clerical and other lower-paid workers. This has vastly expanded Edinburgh's travel-to-work area, causing big commuting and congestion headaches.

The failure of the Scottish Executive to do anything much about this complex of problems has left many feeling short-changed. Andrew Holmes, the council's director of city development, is dismayed that Edinburgh has been given only 7% of the government's budget for developing social housing for lower-paid workers. The executive, he says, is investing in declining areas, not growing ones.

Similar complaints are levelled against transport spending plans: road-building schemes in the west of Scotland are getting much more money than is Edinburgh and its hinterland. Donald Anderson, the city council leader, says Scottish politicians think too much about dealing with failure. “We need to focus on creating and sustaining success because in the modern world successful regions are based around successful cities.”

Ray Perman, chief executive of Scottish Financial Enterprise, an industry lobbying body, is astounded that the executive has not identified financial services as one of the “growth clusters” important to the Scottish economy. It means, he says, that Edinburgh's transport, labour, and housing problems are being ignored.

The answer to these problems may come from the city itself. After years of dealing piecemeal with transport, the council has now set up a company which it owns but whose directors mainly come from

the financial industry, the first of its type in Britain. Their expertise, the council thinks, may enable it to deliver a road and rail system, partly financed by road tolls, which works. If it doesn't, Scotland will soon have its own chronically congested and over-priced south-east.

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Glasgow's underworld

A book you can't refuse

May 30th 2002 | GLASGOW
From The Economist print edition

Glasgow's gangsters have a new weapon of choice: the word

THERE was nothing especially unusual about the street brawl between Tam “the Licensee” McGraw and Paul “Babyface” Ferris last month. What was odd was what happened afterwards. Mr McGraw invited a young man from the *Daily Record*, a Scottish tabloid, into his home in a pleasant Glasgow suburb, and stripped off. His wife said to the reporter: “See—he wasn't stabbed in the fucking arse.” This is public relations, Glasgow gangland-style.

Why are Glasgow's gangsters getting involved with anything so unsavoury as journalism? Because they have been caught up in the celebrity industry. Gangsters' memoirs have become a popular publishing genre. Small-time villains have found a new way to sound big. Rivals have taken to beating each other up in the tabloid press.

The weapons may be new, but the feud is an old one. It goes back to the break-up of Arthur Thompson's criminal empire. In 1991, Mr Thompson's son, Arthur “Fat Boy” Thompson, was gunned down outside his home. On the day of the funeral, Joe Hanlon, the presumed killer, was found shot dead, along with another man, who may have just been passing by the execution scene. Mr Ferris was tried and acquitted of the crime.

Mr Thompson, who believed in silence when dealing with police or reporters, died disappointingly peacefully in 1993. Mr McGraw, who worked for the crime boss, took over most of his operation. He is now believed to be Scotland's richest criminal and runs some legitimate businesses. One, until the taxman took an interest, was a fleet of mini-cabs. One source told *The Economist* that Mr McGraw at one point rented radios to 500 drivers at £80 a week. If true, that adds up to an income of something like £2m a year.

Mr McGraw's only conviction is for theft. He has been tried for attempting to murder a policeman and drug-smuggling: the verdict on both charges was “not proven”. But lately he has been more bothered by books.

The first was by Thomas “TC” Campbell, who was serving a life sentence for the firebomb murder of a family of six in 1984 during a criminal battle for control of ice-cream vans which were used for selling drugs. Mr Campbell has always protested his innocence and his book pointed a finger at Mr McGraw as having had a hand in the firebomb deaths.

In 1998, Mr Ferris got a seven-year jail sentence for gun-running. He whiled away his time scribbling and the resultant tome accused Mr McGraw of being a police informer and having a certain licence for criminal activities from the police. Hence, it is said, Mr McGraw's curious nickname—the Licensee.

Earlier this year, Mr Ferris was paroled. He headed back to Glasgow, seemingly to resume his criminal career, but also to the street scuffle with Mr McGraw. And he made the mistake of meeting a known gunman. Police surveillance of the meeting resulted in Mr Ferris going back to jail for breaking parole conditions. One story says he learned of his prison recall during a meeting with a representative of the *News of the World* to discuss photography of his body to prove he was unscathed in the knife-fight with Mr McGraw.

Meantime Mr McGraw, having come off the worst from his rivals' literary blasts, appears to have decided to fight fire with fire. He is allegedly writing a book, too, which will name all sorts of criminals and crimes, and corrupt police, all claimed to be backed up by tape recordings, documents and videos. Strathclyde Police scoff, pointing out that corruption allegations are an excellent way for criminals to cause trouble

for the police. Nobody has yet given them, or anybody else, anything to investigate.

So, given their new predilection for fighting their battles on paper, are the Glaswegian gangsters likely to conclude that the pen is mightier than the cosh? Should they decommission all those old-fashioned weapons? Don't hold your breath. Many in Glasgow think the war of words is just a precursor for another bout of the real thing.

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Bagehot

New Labour's fragile heart

May 30th 2002
From The Economist print edition

No minister was more Blairite than Stephen Byers, which is why the prime minister should be worried

THERE are many reasons for cabinet ministers either to resign or to be sacked, but, while inevitable and overdue, the departure of Stephen Byers conformed to few of them. There was no scandal in his personal life and no falling out with senior colleagues about the direction or conduct of policy; although a serial manipulator of the truth, Mr Byers was smart enough never quite to be nailed for lying to the House of Commons; after his quasi-renationalisation of Railtrack, Labour MPs felt warmly towards him; cabinet colleagues, deploring his treatment at the hands of the press, offered solidarity until the end; although he damaged the government by his continued presence, the prime minister was still sorry to see him go, describing much of the criticism aimed at Mr Byers as “unfair” and, bizarrely, giving him the run of Number 10 to announce his resignation.

Although the hapless transport secretary was ultimately paralysed by public ridicule as “Liar Byers” and subjected to every humiliation the media could invent, Mr Blair never quite withdrew his love from Mr Byers. And with good reason. While Mr Byers had personal traits that exacerbated his difficulties, in particular a tendency to recollect conversations rather differently from others that had been party to them, he was New Labour made flesh.

More than anything, Mr Byers was brought down by spin. The odious e-mail sent on September 11th by his political adviser, Jo Moore, suggesting that this might be “a good day to bury bad news” was the beginning of a sea of troubles that eventually engulfed him. Ms Moore was a tough street-fighter who had learned the black arts of her trade working at Labour's headquarters during the decade it took for the party to reinvent itself and win an election. Like many others who went to influential new jobs when Labour entered office, she took with her the controlling, bullying ways learned at that time. Peter Mandelson and Alistair Campbell, the architects of the superb communications machine that helped make Labour so brutally effective in opposition, now argue that spin has become counter-productive, but old habits die hard.

Perhaps if Mr Byers had promptly sacked Ms Moore, his future would have been different. But that would be fundamentally to misunderstand New Labour. The personal loyalties forged during Labour's long winter ran deep. Not only did Mr Byers want to keep Ms Moore, but the prime minister himself intervened, insisting that she deserved another chance. Furthermore, the conviction, born of 18 years in opposition, that the civil service had been thoroughly “Thatcherised”, despite ample evidence to the contrary, had still not been dispelled after more than four years of power. Every true-believing praetorian of the New Labour “project” was needed to cajole and bend recalcitrant departments to the government's will. Mr Byers went to his sprawling department (comprising, until this week, not just transport, but also local government and the regions) with the reputation of a minister who had little inclination to form constructive working relationships with his civil servants. Contributing to this fatal combination of arrogance and insecurity was the Blairites' own view of themselves as a vanguard party within a party. And the very *ne plus ultra* of Blairism was Mr Byers.

Mr Byers's seeming obsession with presentation over the grim slog of delivery, his infuriating insouciance in the face of near-anarchy within his department, and his slippery evasions when under pressure became a kind of dystopian vision of New Labour. Much of this was squarely Mr Byers's fault, but by no means all. It was Mr Blair who was content to leave the deputy prime minister, John Prescott, in charge of transport policy (not to mention a lot of other important things) for four years. Mr Prescott is good at bombastic self-promotion, but not at running anything. By allowing Mr Prescott to prate and posture, Mr Blair demonstrated the low priority he gave to transport. Mr Byers inherited little from his predecessor other than a muddled ten-year plan that he was latterly doing his best to junk.

The Brown hand

Mr Byers was also a victim of that other deformity that lies close to the centre of New Labour, the half-creative, half-destructive relationship between Mr Blair and the chancellor, Gordon Brown. While relations between the two are invariably civil, Mr Brown is suspected of sometimes being less helpful than he might be to ministers he regards as too much Mr Blair's creatures, none more so than the wretched Mr Byers. Mr Brown's hand was certainly behind many of Mr Byers's difficulties, from the refusal to reconsider the flawed public-private partnership for London Underground to the politically foolish initial decision to refuse compensation to Railtrack shareholders. Mr Brown, who has now decided to save the health service, felt no desire to do the same for transport as long as Mr Byers might get the credit. It will be interesting to see if he feels differently now that Alistair Darling has the job of making the trains run on time. Mr Darling is probably a more competent manager than Mr Byers, but, more importantly, he is Mr Brown's man.

It is too early to say how badly hurt Mr Blair has been by Mr Byers's strange and long-drawn-out political death. It has certainly had some effect on his popularity, which, according to a *Guardian*/ICM poll last week, has slumped to plus six points from the stellar ratings he achieved last autumn, while Mr Brown, in the afterglow of his budget to save the NHS, enjoys a plus 45-point rating (Mr Byers scored minus 49-points, a record). By keeping Mr Byers, the prime minister appeared to be tolerating ministerial failure. But now he is gone, so too is a useful lightning rod. What matters is whether the prime minister can bring himself to see that Mr Byers was brought low not just by a cruel press and his own poor judgment, but by frailties that lie at the very heart of New Labour.

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Passion, pride and profit

May 30th 2002
From The Economist print edition

Corbis

International football is a multi-billion-dollar industry. Yet, argues Gideon Rachman, the game is less about money than about passion and national pride

Get article background

ON THE night of July 12th 1998, a million people spilled on to the streets of Paris and converged on the Champs-Elysées. France's victory over Brazil in the World Cup final that night sparked the biggest popular celebrations in the French capital since the liberation of Paris from the Nazis in 1944. It is safe to predict that on June 30th this year, as another World Cup is won, there will again be wild rejoicing somewhere in the world. According to the bookmakers, it may be in France again; or in Argentina, a football-mad country in desperate need of a boost to its morale.

But there is no need actually to win the championship to experience World Cup euphoria. In some countries it is enough simply to qualify for the final stages of the tournament. In China, a quarter of the population—around 300m people— watched their country clinch its first ever place in the finals with a 1-0 victory over Oman late last year, and 500,000 people poured into Beijing's Tiananmen Square to celebrate. Senegal is also a first-time qualifier. When its players flew home after securing a place in the finals, they were accompanied by the country's president, and the crowds were so thick that the 15-mile drive back from the airport to central Dakar took four hours. Even countries that never get near the finals can get caught up in the World Cup. When Diego Maradona, an Argentine football superstar, was disqualified from the 1994 World Cup for drug use, thousands of people in Bangladesh demonstrated against the decision.

Sports administrators like to debate which event draws the bigger audiences, the World Cup or the Olympics. In truth, nobody knows how many people watch either event on television. Many people will see the World Cup in bars or even—as in Brazil—on big screens put up on street corners. FIFA, the world football authority, claims that 33.4 billion people (equivalent to five times the world's population) watched some part of the 1998 World Cup; it arrived at this figure by adding together the audiences for all the games, including those who watched snippets on the news. But whereas the audience for the Olympics is spread out across scores of events—many of which are deeply obscure for all but two weeks every four years—the World Cup has a unique ability to concentrate global attention on a single sport and, within that, a few crucial matches. Moreover, whereas most Olympic stars disappear from the horizon when the games are over, the stars of international football—such as France's Zinedine Zidane, Brazil's Ronaldo and England's David Beckham—are full-time global celebrities.

The staging of this year's World Cup finals in Japan and South Korea is an important moment for world football. The tag “the world's most popular sport” is already justified by the number of people who play

and watch the game, but for now only three continents—Europe, Latin America and Africa—are truly football mad, with vast numbers of fans, well-established leagues and a tradition of producing top players and teams. The first World Cup took place in Uruguay in 1930, and for the next 64 years the tournament was staged only in Europe or Latin America. But, in a deliberate attempt to globalise the game, the football authorities awarded the 1994 event to the United States, where it played to huge and enthusiastic crowds. Staging this year's tournament in Asia was the obvious next step. And the 2010 World Cup has been promised to Africa.

Whether the game will really take root outside its traditional heartlands must remain open to question. Soccer is now said to be the most popular participatory sport for girls and boys in the United States. But although a professional soccer league has been established there, the game shows no real signs of displacing American football or baseball in the affections of the man in the sports bar, nor has it generated any real stars. Japan and China both set up professional leagues in the 1990s that are drawing respectable crowds, but their future remains uncertain. Much will hang on the success of this year's World Cup.

Even if professional football fails to take off in Asia and the United States, it will remain the most widely played and followed sport in the world. Like golf, cricket, tennis and rugby, soccer (or Association Football, to give it its proper title) was invented in Victorian Britain. Cricket and rugby are now largely played in countries that formed part of the British empire, but soccer was spread around the world by the “informal empire” of trade and industry as British workmen and businessmen set up clubs around the world. The first Italian soccer team was the Genoa cricket and football club, set up by British expatriates; the first Argentine side was the Buenos Aires football club, founded in 1867 as an offshoot of the local cricket team.

Reuters

Zidane is on the ball

Anyone can play

Why was it football, rather than the other great Victorian sports, that captured the world? One reason may have been that it does not require expensive equipment or a well-manicured playing surface. Football is ideally adapted to kick-arounds in the *favelas* of Brazil or the shanty towns of Africa, which continue to produce many of the world's leading players. Football's simplicity may also have contributed to its popularity as a spectator sport. It means not only that everybody can play, but also that any country or club can aspire to win. Even the most famous players from the richest nations or clubs can be defeated by 11 inspired opponents. Whereas the Olympic-medal table tends to reflect the global pecking order—with the United States invariably at the top—in football the Americans are amiable also-rans, last time beaten by Iran. Football's superpowers are Brazil, Argentina, Italy, France and Germany. Its rising powers are in Africa.

Any event that can attract the attention of billions of people would seem sure to be a big money-spinner. What business or product would not yearn for exposure on such a scale? Certainly there is an ever-increasing amount of money washing around the game. The television rights for the 2002 and 2006 World Cups were sold for a minimum of $1.7 billion, an eightfold increase on the deal covering the previous three championships. Companies such as Budweiser, Coca-Cola, Toshiba, Hyundai and MasterCard queued up to sign World Cup sponsorship deals, said to cost up to $45m apiece. MasterCard's Deborah Hughes says the World Cup “delivers the most broad-based international TV audience possible”, and points out that after the last tournament MasterCard issued 1.5m “World Cup Affinity” credit cards. Most of them were new accounts.

In Western Europe, the popularity of football has played a big part in the evolution of the media industry over the past decade. In Britain, the success of BSkyB, a subscription-based satellite-television service that has broken the monopoly of terrestrial broadcasters such as the BBC, was built on Sky's acquisition in 1992 of the rights to live Premier League football. In France, Canal Plus, a subscription-based channel, wooed its audience with a formula of football and films. The print media too have become devoted to football. In Spain, France and Italy, some of the countries' best-selling newspapers are given over to sport, and above all football. And even such publications as *Le Monde* and the *Financial Times* (as well as

The Economist) now write about the game.

Footballers and football clubs are also playing with ever bigger amounts of money. Mr Zidane recently attracted the biggest transfer fee in football history, when Real Madrid paid $64.5m to secure his services; his post-tax pay is thought to be over $150,000 a week. That is still less than a top American sports star such as basketball's Michael Jordan can command, but perhaps not for long. Calculations by Deloitte Touche Sport, a consultancy, show that Manchester United, the richest club in international football, now has larger revenues than any franchise in America's National Football League (the kind that is played with helmets and hands). Stefan Szymanski, an economist at Imperial College, London, suggests that the football industry worldwide is worth about £150 billion ($216 billion).

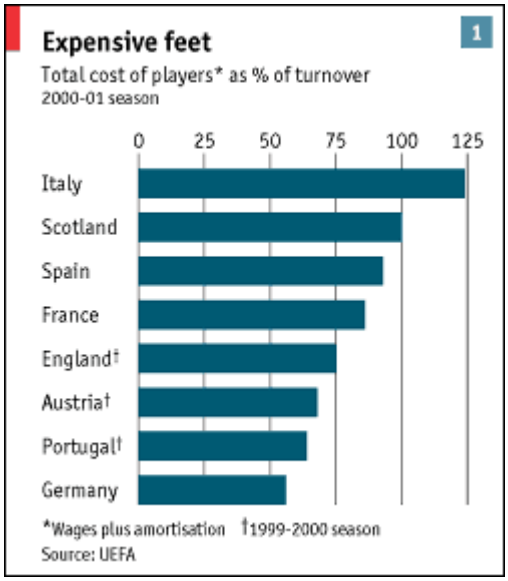
But large revenues do not necessarily mean profitability. The world of football seems beset by commercial disasters. The last two companies to own the rights to World Cup football—ISL of Switzerland and Kirch of Germany—have both gone bankrupt. Kirch made a profit out of selling on the World Cup rights, but suffered big losses on its pay-TV operations in Germany, mainly because it had overestimated the public's willingness to pay for watching televised German league football. Similar problems have sunk ITV Digital in Britain, which had paid £315m to get the rights to some low-grade English soccer games, only to find that viewers were not very interested. ITV Digital is now in administration and says it cannot pay England's lower-league clubs the money they had been promised. As many as 30 of the less glamorous professional English football clubs are thought to be in danger of going bust.

The big money in international soccer is concentrated on the elite European clubs, but some of them are also suffering serious losses. In Italy, top clubs such as Fiorentina and Lazio have had trouble paying their players this year. The English Premier League is widely regarded as admirably businesslike, yet almost all Premier League clubs will lose money this year. The share prices of the 20 quoted football clubs in Britain have been plummeting, generally to around a third of their level two years ago. European problems, however, are dwarfed by the financial chaos in Latin America's clubs, where bankruptcies and strikes are commonplace.

Some of Europe's difficulties can be explained by technological and commercial change. When pay-TV arrived, it became plain that football rights were seriously undervalued, so their price shot up, making them too expensive in many markets. Now the inevitable correction has set in.

This is the kind of thing that could happen in any business. But football as an industry may also have a more systemic problem. The very passion that excites football crowds (and once excited investors) often causes decisions to be taken on non-commercial grounds. Many football clubs across the world are run at a loss by rich men, either for the love of the game or to boost their ego. With so many rich sponsors willing to burn money to fund their teams, even the clubs that are quoted companies—and thus obliged to put profits first—are sucked into a desperate struggle to secure the services of the best players. Footballers' pay has spiralled out of control. The more money the clubs receive, the more they are compelled to spend. Alan Sugar, an English businessman who retired from football-club ownership after a disillusioning decade, calls it the “prune-juice effect”: you can pour a lot in, but it all comes out at the other end. In Italy, according to recent calculations by UEFA, the European football authority, the cost of the players now averages 125% of club revenues (see chart 1).

But it is not just free-spending tycoons and glory-hunting clubs that make football a bad business to be in. Many football fans also seem to think that the sacred rituals of a football match should be protected from vulgar commerce. For example, when Brazil's national side secured $160m in sponsorship before the 1998 World Cup from Nike, a sports-goods manufacturer, Brazilian fans, far from being delighted, complained that a symbol of national pride had been prostituted. Even club sides are sometimes pressurised not to behave commercially. Barcelona, one of the biggest clubs in Europe, has forgone a possible *euro*10m ($9.2m) a year in sponsorship money by refusing to take advertisements on its shirts. Club officials explain that the team is a symbol of the Catalan region (or nation), so its shirts must remain pure.



But perhaps the biggest example of the anti-commercial impulses that run through the game is the World Cup itself. Football clubs around the world have to lend billions of dollars-worth of talent to their national sides, free of charge. The clubs will pay the players' wages throughout the tournament, and have to accept that their

precious stars may return exhausted or even injured. Ronaldo of Brazil and Inter Milan entered the 1998 World Cup as the biggest and most bankable star in world soccer, but picked up injuries in the tournament and has never been quite the same since. Now he has returned to fitness—just in time to play for Brazil in this year's World Cup. Some clubs may find that they have a new star on their hands after the 2002 finals, but even that may be a mixed blessing. “It just means that their wage demands will go up,” laments a spokesman for the G-14, a lobby group for the biggest European teams.

Even so, it remains unthinkable for the clubs not to release their prized assets to the national sides. For a start, it would be against FIFA rules. Besides, most football administrators are also football fans and patriots. They want to see the best players perform in the World Cup. Football is not just a sport or a business. At the top level it is also closely intertwined with politics and national pride.

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A political game

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From The Economist print edition

Football and politics are strange but regular bedfellows

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IT MIGHT seem like a big leap from running a football club to running a country, but Mauricio Macri, the president of the Boca Juniors club in Argentina, thinks he is in with a chance. The Argentine economy is in turmoil and the country's international reputation in tatters, but at Boca, the most popular team in Argentina, Mr Macri has built a solid reputation for administrative competence and international success. As he himself observes: “There are many other people in the private sector who may have just as much talent as me, but they don't have the visibility that football provides.” A nation of football fans, he reckons, might trust him to turn the country around.

Mr Macri would not be the first to move from managing a football club to something bigger. Fernando Collor de Mello, who became the youngest ever elected president of Brazil in 1989, first established himself in the public eye as the president of a football club. Perhaps even more impressively, Silvio Berlusconi, Italy's prime minister, used his country's football passion to ease his way into the top job.

Mr Berlusconi made most of his money through his media businesses, but his highest-profile venture was his ownership of AC Milan, which in the late 1980s and early 1990s was the most successful football club in Europe. When Mr Berlusconi ran for political office, his publicity machine skilfully contrasted his stewardship of AC Milan with the crumbling Italian political order in the early 1990s. His supporters made much of the fact that *Il Cavaliere* had taken over AC Milan at a time when its fortunes, like Italy's, were at a low ebb, but swiftly turned it into a winner. Just in case the voters missed the point, Mr Berlusconi called his new political movement *Forza Italia*—the chant Italy's supporters use to urge on their national team. In associating himself with Italian football successes, Mr Berlusconi was continuing a long and not always honourable tradition. Italy's triumphs in the World Cups of 1934 and 1938 were skilfully exploited by Mussolini, who called the Italian team “soldiers in the service of the national cause”.

To be fair, when a national football team does well, politicians of all stripes find it hard to resist projecting the team's virtues on to the nation. France's victory in the 1998 World Cup was seized upon as the perfect illustration of what President Jacques Chirac called a “France that wins”. In a country in which far-right anti-immigration parties were even then garnering up to 15% of the vote, politicians of a more liberal persuasion pointed to the multi-racial nature of the team, “blacks, beurs, blancs” (blacks, Arabs, whites). In particular, much was made of the fact that the team's star, Zinedine Zidane, was the son of a warehouseman from Algeria. “What better image could there be of our unity and diversity than this magnificent team?” asked Lionel Jospin, France's prime minister at the time.

The success of Jean-Marie Le Pen, the far-right candidate in this spring's French presidential election, makes that rainbow-coloured optimism seems too hasty in retrospect. Indeed, even before Mr Le Pen's strong showing in the first round of the presidential election, France's ease with its multi-racial identity had been called into question in the very stadium in Paris where France celebrated its 1998 triumph. Last October, France played a friendly match there against Algeria, the first time the two sides had played each other since the end of colonial rule. But when the French national anthem was played before the match, it was drowned out by whistles and catcalls from young French North Africans in the crowd; eventually the game had to be abandoned because of crowd disorder. The whistling across the national anthem caused shock throughout France and became a staple of Mr Le Pen's campaign speeches.

For the 15 members of the European Union, which frowns on nationalism, the national football team is a rare outlet for patriotic feelings. In post-war Germany, the emergence of a highly successful national side gave Germans a safe way to be proud of their country again. The idea is captured in “The Marriage of Maria Braun”, Rainer Fassbinder's classic film about the rebuilding of post-war Germany, which has a climactic scene played out against the voice of a frantic commentator cheering the German team on to victory in the 1954 World Cup final. When late last year the German team was thrashed 5-1 by England

in a World Cup qualifier, a columnist in the daily *Frankfurter Allgemeine* regretted, only half-jokingly, that Germany seemed to be saying goodbye to the two symbols of its post-war strength simultaneously, with the D-mark giving way to the euro and the German soccer team losing its aura of invincibility.

If Germany used football to help exorcise the second world war, England sometimes seems to use it as a way of re-enacting it. English fans always whistle tunes from favourite war films in games against Germany, and like to chant about “two world wars and one World Cup”—a reference to England's victory against Germany in the 1966 final. So out of hand did English “war fever” get in the run-up to a big game against Germany in 1996 that English players were portrayed in military uniform on the front page of a British national newspaper and politicians called for calm.

War games

But it is not just the English who seem to treat football matches against Germany as a surrogate for war. In his splendid book, “Football Against the Enemy” (published by Orion), Simon Kuper calls games between the Netherlands and Germany “the greatest grudge match in European football”. After the Netherlands secured a famous victory against Germany in the European Championships of 1988, 60% of the population took to the streets to celebrate. Dutch television interviewed former resistance fighters about their reaction. A special book of poetry was published to commemorate the victory, combining the efforts of footballers and professional poets. As Mr Kuper notes, “almost all the poems made reference to the war.”

The connections between football and war became even plainer when Argentina invaded the Falkland Islands in 1982. In a bid to whip up patriotic fervour, the ruling junta intercut television pictures of Argentine troops with film of Argentina's victory in the World Cup in 1978. Four years after its defeat in the Falklands, Argentina came face to face with England in the quarter-finals of the 1986 World Cup and won a revenge victory thanks to two goals by Diego Maradona: the first, as television revealed, a clear foul in which he punched the ball into the net (he later claimed it was “the hand of God”); the second the result of one of the most brilliant displays of individual skill in any World Cup game. Curiously, Maradona later said that in some ways he preferred the first goal. It was, he said, “like picking the Englishman's pocket.”

Something to be proud of

For a small country, even a decent run in the World Cup can make a big difference. According to Michael Staunton, a historian of Catholicism at University College, Dublin, Ireland's charge to the quarter-finals of the 1990 World Cup helped to loosen the grip of the Catholic church on the country, offering an alternative focus for national identity and community feeling.

For African countries, football is a way of gaining the respect they find hard to come by in other spheres. In 1990 Cameroon astonished the football world by beating Argentina (then the reigning world champions) in the opening game of the World Cup. Roger Milla, the team's star, said later that the image he most treasured was that of Paul Biya, Cameroon's president, shaking hands with other heads of government after the victory: “An African head of state who leaves as a victor, and who greets with a smile the defeated heads of state.”

Football is at its most political when national teams take to the field, but club sides—representing regions and cities—also generate fierce loyalties. On March 13th this year, 80,000 people packed into Barcelona's Nou Camp stadium to watch the home side take on Liverpool in the Champions League, Europe's most prestigious and lucrative club competition. It was the eve of a European Union summit in the city and many dignitaries had taken time off to watch the game, among them Spain's King Juan Carlos. As the two teams took to the field, a giant banner proclaiming “Freedom for Catalunya” (the Spanish province of which Barcelona is the capital) was unveiled at one end of the stadium. After the game, Javier Perez Farguell, Barcelona's managing director, tactfully claimed not to have seen the giant separatist banner. But he noted unapologetically that “this club was a flagship for Catalonia under dictatorship, and many Catalan symbols survived here.”

Mr Perez Farguell does not think that Barcelona FC should follow other big European clubs, such as Manchester United and Juventus of Turin, in floating itself on the stockmarket. His views may reflect his background as a banker: “Football clubs are small-capitalisation stocks and tend to get punished by the markets.” But he also thinks that football and capitalist logic are a bad mix: “I know that if we win a cup,

the whole town will celebrate; if we have a budget surplus, nobody cares."

As it happens, Barcelona made a small profit last year. But there are many football bosses who are prepared to plunge their clubs into debt in the search for glory. In Buenos Aires, Mr Macri notes that the prevalence of such behaviour is a problem for the whole football business: "We are all linked. When one club starts paying higher salaries than it can afford, sooner or later it will be a problem for your club. Football is a crazy business all around the world."

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Citizens of the world

May 30th 2002
From The Economist print edition

National football styles are converging

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IT IS not just politicians who like to think that football teams embody national characters. Football fans cherish the same belief—and indeed the clash of national styles and temperaments is one of the charms of the World Cup.

Jorge Valdano, who played in the Argentine side that won the 1986 World Cup and is now sporting director at Real Madrid, puts it this way: “The Brazilians play like they dance; the Germans play like they make cars, with lots of technical efficiency and not much left to the imagination; the English run hard all the time, maybe because of the weather; the Spanish are a mosaic of regional styles, which has yet to find a national pattern. And the Italians,” he pauses and frowns, “they are a paradox. In every other area they export style and flair to the world; but in football they've allowed the ideal of collective organisation to crush individual talent.”

Still, football is becoming a global game, and Mr Valdano worries that this is eroding national differences. Most of the leading Latin American stars now play in Europe, where they have picked up European ideas about tactics; at the same time the European teams have learned from the Latins. “Twenty years ago it was easy to say that Latin American football was about technique and talent, and European football was about organisation, speed and fighting spirit. But with television and player transfers, all these trends are coming together.”

In Latin America in particular, there is concern that in the new, global style of football, athleticism is triumphing over artistry. When the great Brazilian sides of 1970 and 1982 were strutting their stuff, the average player would run about four kilometres during a game. Now he will probably cover twice as much ground. As a result, players have less time and space to display their ball skills. They also have to be more disciplined personally. Gerson and Socrates, Brazil's midfield generals in 1970 and 1982 respectively, were both heavy smokers. This time, fewer cigarettes will be lit up at half-time.

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For love or money

May 30th 2002
From The Economist print edition

Football revenues have soared over the past decade, but spending has risen even faster

Reuters

Mighty Mancunians

Get article background

"ANNUAL income twenty pounds, annual expenditure nineteen pounds nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds and six, result misery." Most chief financial officers might consider this piece of advice handed out by Dickens's Mr Micawber as somewhat unsophisticated. But a look at the finances of the world's football clubs with the highest revenue, all of which are in Europe (see table 2), suggests that Mr Micawber may have had a point.

The past decade has seen a relentless rise in the amount of money flowing into the game from television, bigger crowds, sponsorship and a much more professional approach to merchandising. Manchester United, the world's richest club, has seen its turnover rise from £17.8m in 1990 to £129m in 2001. The average turnover of the English Premier League clubs has gone up by 500% in the past decade, according to Deloitte Touche Sport. The snag is that salaries—the major cost for all football clubs—have gone up by 700%, so despite their soaring revenues, fewer and fewer Premier League clubs are making a profit. Big names such as Leeds United and Chelsea have recently announced large losses; indeed, says Oliver Butler of Soccer Investor, a research group, Manchester United may be the only Premier League club to make a profit this year.

The super-league 2

World's richest football clubs by revenue, 1990-2000, m

Manchester United	184.8
Real Madrid	163.6
Bayern Munich	144.7
AC Milan	141.7
Juventus	139.7
SS Lazio	125.4
Chelsea	121.1
Barcelona	118.7
Internazionale	108.8
AS Roma	101.2
Arsenal	96.7
Borussia Dortmund	93.8
Leeds Utd	90.1
Fiorentina	85.6
Glasgow Rangers	81.6
Olympique Marseille	78.8
Tottenham Hotspur	75.8
Parma	75.0
Liverpool	73.6
Newcastle United	68.3

Source: Deloitte Touche Sport

The rest of Europe is in even deeper trouble. Real Madrid, recently voted "club of the century" by FIFA, amassed a debt of an estimated *euro*400m which it was able to clear only by selling its training ground in central Madrid for development. In Italy, Lazio and Fiorentina—which both feature in Deloitte Touche's list of the 20 richest clubs in the world—have been struggling to pay their players' salaries.

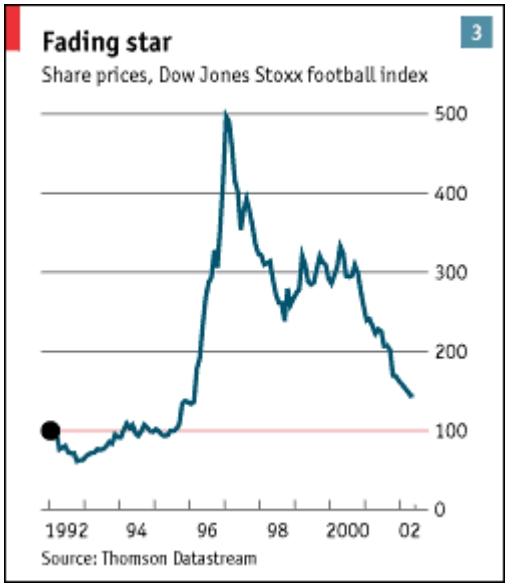
Unsurprisingly, the shares of both Lazio and Roma have plummeted since the two became the first Italian clubs to be floated on the stockmarket in 1998 and 2000 respectively. Even

Manchester United, which by football-club standards is unusually profitable, has seen its market capitalisation fall from £1 billion in 2000 to around £310m today. A specialist soccer-investment fund set up in 1996 by Singer and Friedlander, a merchant bank, was wound up this year.

Don't watch this space

In the past couple of months, underperformance has threatened to turn into full-blown crisis. In Germany and Britain, big broadcasters overpaid for the rights to televise football, and have now gone bust—which in turn could put the squeeze on professional football. Kirch, Germany's leading media empire, had been unravelling for months. It had gambled on live football from the German Bundesliga as the “killer application”, delivering the audiences it needed for Premiere-TV, its pay channel—but not enough subscribers signed up. If Kirch cannot keep up its payments to the German football league, many German clubs may go bankrupt.

A similar problem faces the second-tier English clubs, competing in the Nationwide League. They too had based their business plans on a generous flow of television money from ITV Digital, a new television company which, like Kirch, had hoped to build up a pay-TV business on the back of live football. As many as a third of England's lower-league professional clubs may go out of business now that ITV Digital has gone into administration. And England and Germany are only the most dramatic examples of a common problem. Football on pay-TV has also run into problems in Italy, where the two main providers, Telepiu and Stream, are hoping to merge in order to stem their losses.



So was the idea of football as the “killer application” for television misconceived in the first place? Not really. Sky television in Britain in the early 1990s showed that if you have the right games at the right times, and have paid the right money for them, you can indeed build a new television channel on the back of football.

ITV Digital's mistake was that, under pressure to establish itself, it paid an extraordinary amount to televise the games of some strikingly unglamorous sides. Sky had demonstrated that people were willing to pay to watch Manchester United or Liverpool. But Wimbledon or Stockport County? Kirch's main difficulty was that because so much football is available on free television in Germany, not enough fans were willing to pay for watching it live. And when Kirch tried to restrict the amount of football shown on free TV, it ran into political opposition.

The more interesting the game and the bigger the potential audience, the greater the chance that a government will get it put on free television as an event of national interest. Across Europe, governments have insisted that the main World Cup games should be on free television, forcing down the value of the rights, which are also owned by the luckless Kirch. In Britain, there is a group of “listed” sporting events—including the FA cup final—that have to be on free television. In Spain, the government passed a law in 1996 to ensure that a certain amount of football was available on free TV.

A symbiotic relationship

But although football has thrown up plenty of problems for television, and vice versa, in the long run the relationship is likely to survive and prosper. Over the past decade, both the football-rights market and the television industry have been in a period of flux. New technologies and new channels were emerging just as it became clear that television had been undervaluing football for decades. The ensuing bidding war caused an overshoot, making some rights packages too expensive. This has hurt both clubs and television companies. But Peter Kenyon, chief executive of Manchester United, is surely right to insist that, in the long run, “pay-television has been great for football, and it will continue to be.”

Television rights clearly matter, or the football world would not be fighting for them. Traditionally they have been sold as a package by football leagues, and the revenues parcelled out among the constituent clubs. But as revenues have risen, the biggest clubs have become aware that they may be selling themselves short, and are now trying to regain control of the rights to more of their games.

Some clubs have already made the break. In Spain, the big two—Barcelona and Real Madrid—have sold their rights individually. And the Scottish league—one of the oldest in the world—is being torn apart by a dispute over television rights. Rangers and Celtic, the two biggest clubs, have been expelled from the Scottish Premier League after refusing to go along with the smaller clubs' plans for TV revenues. The big two from Glasgow may now seek their fortunes in the much more lucrative television market of the English leagues, or even try to form a pan-European league with other big clubs trapped in small television markets, such as Ajax of Amsterdam and Benfica of Lisbon.

Electronic kick-off

A battle also looms over the control of Europe's most prestigious competition, the Champions League. At present UEFA, which regulates European football, sells the television rights to a single buyer in each European country. But the biggest European clubs are backing a European Union charge that this may be anti-competitive. A solution is emerging in which UEFA would continue to handle the sale of the main television rights in Europe, but the clubs would gain control of the rights to “new media”—such as the Internet and Internet-enabled telephones—and perhaps to distribution outside Europe.

Most of the big European teams have invested heavily in their Internet sites, and many have started their own television stations, in the hope of merging the two operations in due course. Liverpool, for example, has re-labelled its Internet site Liverpoolfc.tv. Along with many other clubs, it is now selling electronic season tickets that allow technologically adept fans to watch goals and even whole recorded games on the Internet. Teams such as Liverpool have millions of fans all over the world and see the Internet as the ideal way of connecting to them. Jose Angel Sanchez, the newly installed head of marketing at Real Madrid, hopes that in a few years' time “people will be watching a Roberto Carlos goal on their phones in Rio, and paying for it.”

Mr Sanchez is typical of a new breed of ambitious young businessmen who are moving into the big football clubs. “Telecoms and globalisation are consolidating the global football market,” he says. “Eventually, you may get just six global brand leaders. People will support a local side, and one of the world's big six. We have to position ourselves for that.” For Mr Sanchez, “the key point now is not building up Real in Spain, but internationally.” Other potential members of that club of the “big six” are thinking along similar lines. Manchester United has held pre-season tours in Asia to strengthen its brand, and was delighted to find that 35,000 people turned up in Bangkok just to watch the team train.

Buying a foreign player from a potentially lucrative overseas market may also be a way of gaining new fans, which helps to explain why Hidetoshi Nakata, a Japanese star, has excited such interest in Europe. According to Mr Sanchez, Real's policy of buying only the most famous players, seemingly regardless of price, has a commercial logic to it: “We're content providers, like a film studio—and having a team with Zidane in it is like having a movie with Tom Cruise.”

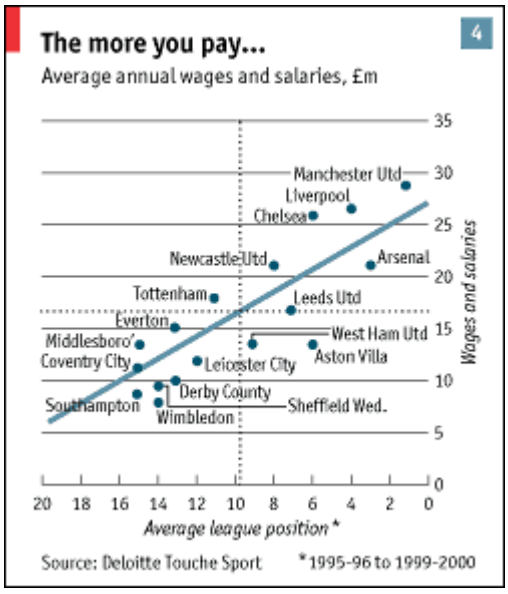
Yet for now, global revenues for big football brands remain largely a twinkle in the marketing men's eyes. Manchester United and Real Madrid, the two richest clubs in the world, both still earn about 95% of their revenues at home. Indeed one of the lessons that the much-admired Manchester United has to teach is that the surest source of income is startlingly old-fashioned: selling tickets to your games. For all the talk of pay-TV, the Internet and merchandising, the largest single revenue-earner for the Mancunians remains putting bums on seats at their Old Trafford stadium. Whereas smaller clubs in England, and many Italian and German teams, are now dangerously reliant on television money, both Manchester United and Real Madrid have managed to retain a more diversified stream of income, with a generous third coming from match-day sales, another third from television and the rest from sponsorship and merchandising.

Football fans like to say that you can't buy success. There are plenty of tales of plucky underdogs pulling off unlikely victories over millionaire superstars. Recently Real Madrid was ready to celebrate its centenary by winning the Spanish Cup Final in its home stadium, only to find that its glittering galaxy of millionaire stars was beaten by the provincial upstarts of Deportivo La Coruña.

But such results delight largely because they are so unusual. Soon afterwards Real went on to win Europe's Champions League for the third time in five years, with the highly paid Mr Zidane striking the winning goal. The truth is that, in the longer run, you generally can buy success. Calculations by Deloitte Touche show, for example, that in the English Premier League there is a strong correlation between the amount a club spends on wages and its success on the field (see chart 4). A similar correlation shows up at the European level. Teams from the richest leagues—England, Spain, Italy and Germany—dominate the European club championships. France's club sides do much less well because most of their stars play

abroad, where salaries are higher and taxes lower.

The knowledge that money can buy success is dangerous to the financial health of football clubs. The big clubs know that many of their competitors are willing to run up large debts in pursuit of victory. Do they stay out of the spending game and risk mediocre results, disillusioned fans and dwindling revenues? Most prefer to plunge in. The same incentives apply lower down the scale, because all European leagues relegate their bottom teams to a lower division. That often spells financial disaster, so small clubs will borrow to the hilt to retain their top-league status.



If there is one thing the big European clubs agree on, it is that, as Javier Perez Farguell of Barcelona puts it, “the party can't go on.” With rising debts, falling profits and ever higher salaries for the players, something has to give. Many hope that the television bust may at last restore some financial sanity to their game, perhaps by bankrupting some of their rivals. Experience suggests, however, that popular football clubs are often able to bypass normal commercial rules. Many clubs are propped up by rich men. In England, Fulham in the Premier League is bankrolled by Mohamed Al Fayed, who owns Harrods, and Blackburn Rovers built a championship-winning side on the back of Jack Walker's steel fortune. In Italy, Silvio Berlusconi financed AC Milan, and its rival across town, Inter Milan, has benefited from the oil fortune of Massimo Moratti.

When all else fails, political intervention can save a club that has spent beyond its means. Real Madrid's European rivals grumble that the sale of the club's training ground—which saved it from crushing debts—was a disguised government subsidy. The training area was conveniently re-zoned by local government to allow commercial development, making its value soar. Nor is political meddling in football finance unique to Spain. As soon as it became clear that Germany's clubs were threatened by the collapse of Kirch, Gerhard Schröder, the country's chancellor, started talking about a government bail-out for the clubs. However, the reaction to Mr Schröder's proposal suggests that the football clubs may need to come down to earth. At first popular opinion was all for a rescue, but when it was pointed out that the government would, in effect, be subsidising footballers on $100,000 a week, the support collapsed.

The era of the rich sponsor may also be coming to a close. Because the amounts of money football clubs are spending are now so enormous, and the potential debts are commensurately large, even very rich men can take fright. Sergio Cragnotti, the millionaire businessman who backs Rome's Lazio, appears to be fed up with funding a team that is said to be over *euro*100m in debt, particularly after disgruntled fans vandalised his home when he sold a popular player to Juventus of Turin. And even Mr Al Fayed must have blinked at the £24m that Fulham lost last year.

The American way

Is there a better way of organising football's finances? Some economists, notably Mr Szymanski of London's Imperial College, point to the organisation of sport in the United States as a possible model. Oddly, given America's reputation for unbridled capitalism, in this particular field America places all sorts of constraints on market forces: television money is shared out equitably between clubs; there are salary caps in place in the National Basketball Association (NBA) and National Football League (NFL), limiting the overall amounts that teams can pay in wages; under a system called the draft, each year the weakest teams in the NFL get first pick of the most promising college players; and there is no penalty for failure, because teams never get relegated from the NFL or the NBA.

The merit of all this co-operation, according to Mr Szymanski, is that it fosters sporting competition and so keeps fans interested. Because of revenue-sharing and the draft, no team can ever hope for the sort of long-term dominance of their domestic league that clubs such as Manchester United and Real Madrid are on their way to achieving in Europe. And because there is no relegation, and therefore no threat of a catastrophic drop in revenue, teams can plan sensibly for the future.

Elements of the American model, particularly the idea of a salary cap, clearly appeal to European football clubs. But if clubs formally agreed on such a cap, they would probably run foul of the European Union's

competition authorities, because it would look like a cartel. American sports, unlike European football, enjoy semi-formal protection from competition law. European football bosses also think that other components of the American model—such as the draft, or the tradition of moving teams from city to city—would not translate to Europe. “It's quite clear that culturally we don't operate in the same way as the United States does,” says Peter Kenyon of Manchester United. He is also sceptical about the idea of a salary cap: “Fundamentally, the best form of cost control is the board of any club deciding what it can afford.”

Manchester United's English competitors might retort that this is fine for the mighty Reds, who can afford to pay the best wages in England and still keep their salary bill at a reasonable 50% of revenues. But even in Europe's playing fields, where Manchester United has higher-spending rivals, its shrewd management has allowed it to remain highly competitive: for example, it routinely gets to the last stages of the Champions League. Bayern Munich in Germany is another team that has managed to combine financial prudence with success. A senior manager, Karl-Heinz Rummenigge, describes how his team does it: “Our philosophy is that if we receive one euro, we spend only 95 cents.”

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Of cups and leagues

May 30th 2002
From The Economist print edition

The arcane world of football organisation

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THE World Cup is the most famous competition in football, but all professional footballers earn their living by playing for club sides dotted around the world. The basic building blocks of world football are national federations, which typically run the domestic leagues in which these teams compete. The world's best players tend to play in those leagues that offer the highest pay: Spain's La Liga, England's Premier League, Italy's Serie A and Germany's Bundesliga.

The best club sides also often compete in cup competitions that are organised on a continental scale. UEFA, the European football federation, organises the most lucrative of these tournaments: the Champions League, which groups together the leading European sides. There is also a Latin American equivalent, the Copa Libertadores, as well as competitions organised by the football federations in Central and North America, Asia, Oceania and Africa.

Football clubs dislike releasing their expensive charges to play for their national sides, but they have no choice. As well as the World Cup, each regional federation organises a competition such as the European Championships (current holder: France) or the African Cup of Nations (current holder: Cameroon). But the big one remains the World Cup.

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The man in the tracksuit

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Clubs need managerial as well as financial stability

Reuters

The Sven-Goran way

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MANCHESTER UNITED and Bayern Munich have more in common than their ability to combine success on the pitch with financial prudence. They have also both seen the value of sticking with the same team manager (head coach) for an extended period. Sir Alex Ferguson at United and Ottmar Hitzfeld at Bayern have both had many years to shape their teams in their own images.

In theory, the people who run football clubs know that it makes sense to stick with a team manager for a good long time. At Barcelona, Javier Perez Farguell, the managing director, says his experience in business points to the importance of managerial stability. But he adds, a touch despairingly, “You must remember that the club president does not own the club, he is elected by the fans. It is very hard for him to resist when 80,000 people start waving their white handkerchiefs [the traditional sign that they want the manager to be sacked].” True to form, this spring Barcelona sacked its coach, Carles Rexach, even though he had taken the team into the final four of the Champions League. The new man, Louis van Gaal, has held the job before, but the team has now changed coaches six times in six years.

Over at Barca's arch-rivals, Real Madrid, they may have found a way around the perennial problem of managerial instability. Real has appointed Jorge Valdano, a former player and manager, as “sport director”—a new layer of management between board and team coach. Mr Valdano is in charge of buying players for the team, but he does not coach it. As he puts it, “I go to the market and buy the vegetables, but somebody else cooks the stew.” Mr Valdano certainly has expensive tastes. In two successive summers he has broken the world transfer record—first for Luis Figo of Portugal, then for Mr Zidane—and Real is planning another extravagant shopping spree this summer.

The unstated attraction of this division of labour is that the team manager can be sacrificed to the fans if need be, whereas Mr Valdano is likely to stay put to ensure continuity. As he explains, “When I returned to the club, the team was like a Frankenstein's monster—the eyes had been bought by one manager, the legs by another and the arms by someone else.” Now he will be able to build a team and develop a playing style without constant chopping and changing.

When it comes to seeking out a new manager, important clubs and international sides are fishing in the same pool. Just as multinational companies now scour the world for chief executives, so football teams are increasingly willing to bring in big-name foreign coaches. At this year's World Cup, Japan will be coached by Philippe Troussier, a Frenchman; Paraguay has engaged Cesare Maldini, who coached the

Italians in the 1998 World Cup (and whose son captains the Italian team); and China is coached by Bora Milutinovic, a Yugoslav who specialises in getting unfancied teams to perform much better than expected in the World Cup (his previous charges include Mexico, Costa Rica, the United States and Nigeria).

Mr Milutinovic's success in piloting China to its first ever finals have turned him into a national hero and a familiar face in television advertisements, so much so that he has trademarked the name “Milu” in China. Hernan Dario Gomez, a Colombian who has got Ecuador to its first finals, has a genuine claim to hero status, not just for his coaching success but also for agreeing to stay on in the job after being shot and pistol-whipped, apparently by hoodlums employed by a former president who felt that his son should have been picked for Ecuador's under-21 side. England, meanwhile, has become the first big football country in modern times to take on a foreign manager. Sven-Goran Eriksson, a Swede with a long record of success at club level, arrived in 2001 and immediately started to turn the team's fortunes around.

Horses for courses

What is it that makes a good manager? Some of the skills required are similar to those needed in business: choosing and motivating personnel, picking a plan and sticking to it. But football has its own idiosyncrasies: in particular, a preference for the macho school of man-management. Daniel Passarella, who took the Argentine side to the last World Cup, refused to pick players with long hair, thus ruling out one of the country's most talented midfielders, the stubbornly hirsute Fernando Redondo. Bobby Robson, England's most successful manager of recent years, is usually regarded as a gentle soul, but he records in an autobiography that in his managerial job at Ipswich Town he selected Bobby Ferguson as his assistant because “I wanted someone I could rely on when the fists were flying in the dressing room.” Sometimes the macho style works. Jimmy Floyd Hasselbaink, a leading scorer in England's Premier League, recently described a turning-point in his career when George Graham, his manager at the time, told him he “looked like a homo on the pitch”. It inspired him to prove his manhood with a burst of goals.

Many of today's coaches, however, behave more like bank managers than sergeant-majors. It is said of Mr Eriksson that his idea of a celebration is to raise both eyebrows simultaneously. His managerial style has even inspired a new book by two academics from the London Business School (“Leadership the Sven-Goran Eriksson Way”, by Julian Birkinshaw and Stuart Crainer), who conclude, disappointingly, that “there is no single thing you can point to as the core of his leadership style.” Certainly Mr Eriksson's main tactical ideas seem fairly simple: to pick players who can run fast, and to ask them to play in their normal positions. In England this counts as radical innovation. Previous managers often picked players because of their fighting spirit; the stock phrase was, “Somebody you would want next to you in the trenches.”

But although he is now riding high in England, Mr Eriksson will know that all careers in football management—no less surely than all political careers—end in failure. Even capturing the World Cup itself does not appear to exempt a coach from criticism. Carlos Alberto Parreira, who coached Brazil to victory in 1994, found it hard to get a top job in Brazilian football afterwards. He was accused of betraying the country's football heritage by making the team play in a negative European style. But then football in Latin America has always been a law unto itself.

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The not-so-beautiful game

May 30th 2002
From The Economist print edition

Whatever happened to football in Latin America?

AP

Romario appeals for his pay cheque

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THE financial muscle of world football is overwhelmingly in Europe, but Latin America can still claim to hold the game's heart and soul. The first ever World Cup finals were staged in Uruguay; Brazil is the only team to have qualified for every World Cup, and to have won the trophy when it was staged outside its own continent; and the two claimants to the unofficial title of “best player ever” are Pele and Maradona—a Brazilian and an Argentine.

Yet although the signs of decline may not yet be evident on the pitch, Latin American football is in chaos, with financial and administrative problems that make the Europeans' troubles seem trifling. Jorge Valdano, who played alongside Maradona in the Argentine side that won the World Cup in 1986, is pained by the decline of football in his native country: “All the main teams are on the verge of bankruptcy,” he says, “and the stands are empty.” It is a similar story in Brazil, where crowds at football matches have fallen by 40% in the past 15 years. Juca Kfouri, Brazil's leading football journalist and a confidant of Pele, says people are staying away from football as a “Gandhi-type reaction, a passive protest against the state of Brazilian football which has lost all credibility because of mismanagement and corruption.” Even the celebrated national side is now routinely barracked when it plays at home, so much so that it has taken to staging its games in provincial towns, where it can hope for a warmer reception than in Rio or Sao Paulo.

Most of the leading players in the Brazilian side, and all bar two of Argentina's starting line-up, now play in Europe. That is an important clue to one of the main causes of Latin America's football woes. The market for players has become global, and European clubs pay the highest wages. As they compete for the best players, Latin clubs have found their wage bills inflated beyond all reason. Before the recent devaluation of the peso, leading players in Argentina were being paid over $1m a year, yet a ticket to a big game cost around $10. But many players in Argentina and Brazil are simply not being paid. Romario, perhaps Brazil's most popular player at the moment, was recently reported to be owed $4m in back pay by his team.

Yet despite bankrupting themselves in the pursuit of talent, most Latin teams still end up selling their best players in order to keep afloat. Indeed, for many of the clubs this has become their main commercial strategy. Boca Juniors raised $12m on the Argentine stockmarket by floating a fund that promised investors a cut from the future sale of certain named players.

What is more, the players are going abroad at an ever younger age. Two-thirds of the Argentine team that won the World Under-21 championships last year are already playing in Europe. Their fans are fed up: every time they discover a new idol, he is off on the next plane.

Europe's financial firepower would be a problem for Brazilian and Argentine football even if the clubs were well run. But they are not: corruption and mismanagement are rife. Taking a cut when players are sold to Europe is particularly popular. One leading European club that recently paid a multi-million-dollar fee for a player from an Argentine club found that it had to pay no fewer than seven different people who owned unofficial stakes in him (although officially all the money was going to his club). The completion of the transfer was delayed to allow all the owners time to set up offshore accounts.

According to Ezequiel Fernandez Moore, an Argentine football journalist, there are parallels between the governance of Argentine football and that of the country as a whole before its recent debt default. Both the country and the football clubs were living beyond their means, and corruption was widespread. “Companies were privatised, and yet a lot of the money would disappear into Swiss accounts and never reach the government. It's the same when football clubs sell players. The money never reaches the clubs. This is a country that likes to break the rules.”

In Brazil, the spectre of corruption and mismanagement hangs not only over the clubs, but over the Brazilian national side and the Brazilian Confederation of Football (CBF) which runs the game. For example, many people believe that the huge number of players who have been picked for the national side in recent years is explained by the confident expectation that a player's transfer value will soar once he becomes a Brazilian international. Socrates, a much-loved former captain of the national side, puts it this way: “I think the team is being used much more as a negotiating table than for professional reasons.”

After the Brazilian side lost the final of the 1998 World Cup, much of the initial criticism turned on Brazil's sponsorship contract with Nike. Rumours circulated that Nike had insisted on Ronaldo playing in the final even though he had just suffered a mysterious fit. A congressional inquiry found no evidence to support this, though it confirmed that the Brazilian team had agreed to play an inordinate number of “Nike friendlies”—exhibition games that drained the players' energies.

However, the congressional inquiry hinted at a different scandal: the destination of the money that Nike paid over. In a new book, “Futebol, the Brazilian Way of Life”, Alex Bellos puts it this way: “From 1997-2000 the CBF's revenues quadrupled, but it did not pay off its debts. Ricardo Teixeira [the CBF's president], however, did very well out of it. He and his directors received pay rises of more than 300%.” Some of the expenditure authorised by the CBF also looks questionable. As Mr Bellos points out, “In 2000 the CBF spent $16m on travel, enough for 1,663 first-class returns from Rio to Australia.”

But in both Argentina and Brazil there may be hope. Mr Teixeira is still in place running the CBF, but Silvio Torres, a congressman who sat on the congressional inquiry, reckons that the publicity generated has greatly reduced the corruption and abuse. Mr Kfouri, the football journalist, dismisses the idea that the problem with Brazilian football is its involvement with business. Indeed he reckons that ultimately the game may be saved by capitalism. “There is just too much money in football now for it to be run in the old, secretive, amateurish way,” he says. “Businesses will insist on transparency and proper accounts.”

Cleaning-up operations

There are some signs that this is already happening. In Argentina, Mr Macri at Boca Juniors insists on cost control and realistic salaries, “even if my players call me a mean bastard.” Racing Club of Buenos Aires won the national championship last year for the first time in 35 years after being rescued from bankruptcy by private investors. It also benefited from a change in the law that allowed the club to be run for profit rather than as a social club.

Professional management is being installed even at Flamengo in Brazil. In some ways, Flamengo encapsulates all that is wrong with Brazilian football. With a claimed 35m supporters (almost the same as Argentina's total population), it is the most popular team in the country, but the club still does not have a ground: it rents the municipal stadium. Players have recently gone on strike for their pay, and the congressional inquiry has accused the club president of financial crimes.

But a few months ago the club hired Claudio Zohar, a young businessman, to come up with a strategy. Mr Zohar notes that “until recently most people who ran football clubs were just fans.” But as far as he is

concerned, “the amateur model of corrupt football management has failed.” For him, “winning titles is just a weapon to make money.” Lest this sound a little bloodless to the fans, Mr Zohar explains that he aims to get Flamengo back to the point where it can hold on to its best players—people like Zico, the star of the Brazilian team of the 1980s who played for Flamengo for over a decade. That would never happen now, but Mr Zohar reckons that hanging on to your top players is a crucial part of building up your brand.

As he outlines his strategy, Mr Zohar sounds very much like his counterparts at the big European clubs: he wants to turn supporters into customers, to develop new sources of revenue, and to create financial stability and predictability. There is certainly a lot to do. Flamengo does not even have that most basic of commercial outlets, a club shop from which to sell replica shirts. It does, however, do a nifty line in condoms in the team colours, which Mr Zohar claims are outselling those of all other Brazilian teams by 30% .

Men like Mr Zohar instill hope in the future of Latin American football. Another encouraging sign is a recent proposal by President Fernando Henrique Cardoso that all football clubs should be required by law to publish audited accounts. But for the moment, football administration in Brazil remains a textbook case of how not to run things. The emerging football powers, still transfixed by all things Brazilian, had better take note.

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Rising powers

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Football is slowly spreading around the globe

AP

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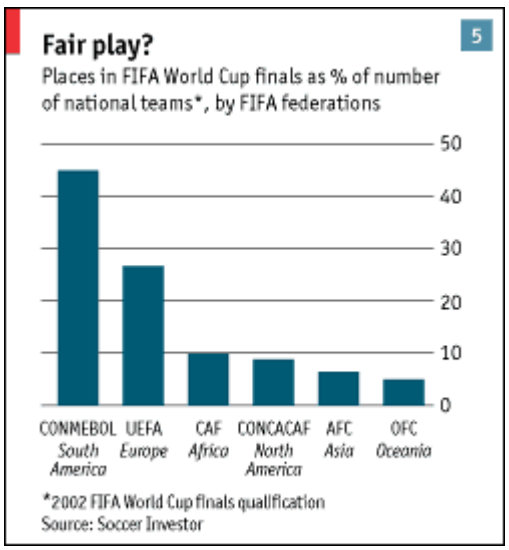
Happiness is a Nike sports bra

ANY challenge to the established powers of world football is most likely to come from Africa. Twenty years ago Pele predicted that an African country would win the World Cup by 2000. His timing was over-optimistic, but top African sides such as Nigeria and Cameroon have notched up many notable victories. However, whereas the Latin American teams seem able to insulate their national sides from administrative chaos at home, at least while the World Cup is in progress, the Africans are followed everywhere by maladministration. At a recent African Nations Cup, the Nigerian side found themselves locked out of their hotel rooms because their bills had not been paid. After their spectacular success at the 1990 World Cup, Cameroon's players returned home to discover that some $600,000 had disappeared from the national team's coffers.

But despite such stories, the performance of African teams on the pitch ensures that African football has to be taken seriously. This year's African Nations Cup in Mali was given extensive and respectful coverage on European television. As if to confound the stereotype of happy-go-lucky Africans, the tournament started with a series of stultifying goal-less draws, worthy of the grinding professionalism of the Italian league. Things got more colourful at the semi-final stage, when a coach from Cameroon was led off the field in handcuffs on suspicion of attempting to cast a spell on the Malian goal. But such incidents do nothing to put off the hordes of European talent-scouts in the stands.

African professional footballers are now represented at the highest levels of European football. In the opening game of the 2002 World Cup—France v Senegal—the Senegalese team will contain more French-based players than the French one. The bulk of the French side play in England, whereas the core of Senegal's team play for Lens, a French club side. Indeed Senegal is now dotted with soccer schools, training up youngsters who hope to make it in the European leagues. Ajax of Amsterdam recently bought a 51% stake in a team in South Africa's Cape Town, with a view to getting first pick of their rising stars. The wealth gap between Africa and Europe will ensure for many years to come that the cream of African football makes its living in Europe.

Asian teams yearn for the sort of credibility the Africans have established. In 1996 Peter Velappan, the head of the Asian football confederation, predicted rather rashly that “by 2005 Asian soccer will be the equal of Brazil”. His words rang hollow two years later when all four Asian contenders were eliminated from the first round of the 1998 World Cup. This time around things may go better. The Japanese side has notched up some impressive victories recently, and could get as far as the quarter-finals. A successful run for the national team would be a huge fillip for the future of football in Japan. A professional league – the J-League – was established in the early 1990s, and initially did well. But in the past couple of years crowds have been falling and two teams have closed. Baseball and sumo still attract much bigger audiences. According to Jonathan Birchall, author of a recent book on football in Japan (“Ultra Nippon—How Japan Reinvented Football”), it is conceivable that Japan's professional league might ultimately fold altogether.



China's professional league, established in 1995, is going through a crucial development phase. Crowds are still increasing—paying spectators at Chinese football matches totalled 3.5m last year—and clubs have had no difficulty attracting sponsorship and television deals. The passion excited by the national team's inclusion in the World Cup finals is certainly a good omen. But, as with Japan, it is too early to say that the future of professional football in China is secure.

If professional football failed to gain a firm foothold in East Asia, it would be a grievous blow to FIFA's ambitions to establish soccer as the only truly global team sport. But it might suit the big European football teams. Clubs such as Manchester United have deliberately targeted overseas markets with large numbers of football fans and weak domestic leagues. The Mancunians have opened “Reds' Cafés” in places such as Singapore and Malaysia where fans can gather to watch games and worship their heroes. Live games from the English Premier League regularly top the cable-television ratings in South-East Asia, drawing much larger audiences than domestic games.

Soccer moms

The soccer authorities in the United States, too, will have to work hard to convince football fans that their home league is the real thing. A new professional league, Major League Soccer (MLS), was established in America in the 1990s. Some 18m (mostly young) people in America now regularly play football, making it the country's largest participatory sport by far. And there are 35m Hispanic-Americans who hail from countries where they take in football with their mother's milk, providing a reservoir of support for the sport. Exhibition games featuring top Mexican teams have drawn crowds of up to 80,000 in Los Angeles. But persuading the same people to go to an MLS game can be hard work. At the moment such games are drawing average crowds of around 15,000, and the league is still in what is politely termed “the investment phase”—ie, losing money. Don Garber, the commissioner of the MLS, says it is pinning a lot of its hopes on the television coverage of the World Cup, which will be used to cross-promote the domestic game.

But whether or not Major League Soccer ever really takes off in the United States, soccer as a game is now part of mainstream American culture. The “soccer moms” who take their kids to play football at the weekend are now as all-American as a Thanksgiving turkey. And America is bringing an innovation of its own to the game: many of the kids who play soccer are girls, and the country has established itself as the world's leading power in women's soccer. When the American women won the World Cup on home soil in 1999, 40m Americans (including President Clinton) tuned in to watch the game live. The winning penalty was struck by Brandi Chastain, who immediately whipped off her shirt in triumph to reveal a Nike sports bra; either a wonderfully spontaneous celebration, or one of the most inspired examples of product placement in sports history.

Clearly it is in the interest of football as a sport to consolidate and build on the progress the game has made in Africa, Asia and North America. But ensuring that these three continents are adequately represented in the World Cup is a tricky diplomatic exercise. Matters have certainly improved since 1966, when Asia and Africa between them had just one team at the finals: North Korea. At this year's finals in Japan and South Korea there will be five African teams, four Asian sides (two of which have qualified as hosts) and three from North and Central America, out of a total of 32 teams. The Africans, Asians and North Americans claim they are still seriously under-represented in what is meant to be a World Cup. The Latin Americans and Europeans retort that the World Cup is meant to be a showcase for the best football in the world, and the best teams still come from football's traditional centres.

It is an issue that demands skilful handling by competent and impartial administrators. Unfortunately FIFA, the governing body for world football, does not meet that description. Indeed it is reeling from corruption and mismanagement charges.

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Time for a clean-up

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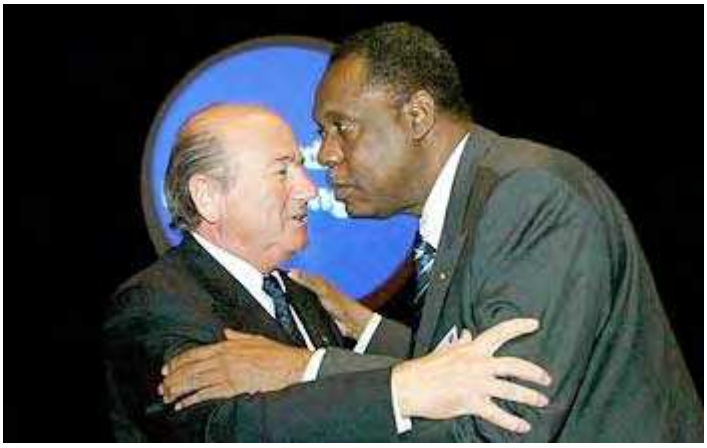
International football needs to be organised on more professional lines

EPA



Blatter and Hayatou wrestle for control

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THE timing could not be more unfortunate. The FIFA World Cup—to give the competition its full title—is meant to be the jewel in the crown of football's world governing body. But only weeks before the start of the World Cup, Sepp Blatter, FIFA's president, was accused of corruption and mismanagement by none other than his most senior administrator.

In a 21-page dossier, Michel Zen-Ruffinen, FIFA's general secretary, alleged among other things that:

• Mr Blatter had repeatedly made unauthorised payments from FIFA accounts. He had also, in the presence of witnesses, handed over a cheque for $25,000 to a former referee. Mr Blatter later admitted making the payment, but said the money had come from his own funds. He said he was helping a man down on his luck, adding: “I'm too good a person.”

• FIFA had written off a $9m loan to the Caribbean and North American football confederation, which is run by Jack Warner, an ally of Mr Blatter's. Mr Warner's own television company had also been given the exclusive television rights in the Caribbean to the last three World Cups for the princely sum of $1.

• FIFA has lost over $115m from the collapse of ISL, its marketing partner. Mr Blatter had previously put the losses at $31.9m.

These charges provoked 11 members of FIFA's executive committee of 24 to file a formal complaint against their president in the Swiss courts. They have complicated life for Mr Blatter, who is seeking re-election. The vote was due only two days before the World Cup opens on May 29th, and after this survey had gone to press. Normally the election would have been expected to produce a triumphant reconfirmation of Mr Blatter, a Swiss administrator who has been running FIFA since 1998. But, even before Mr Zen-Ruffinen came out with his explosive dossier, Mr Blatter was already facing a challenge for the presidency from Issa Hayatou, the head of the African football confederation. FIFA is now guaranteed a fight.

The politics of world football have always been byzantine. After briefly getting involved with FIFA in the 1980s, Henry Kissinger said the experience made him nostalgic for the Middle East. The modern FIFA system was set up by Joao Havelange, a Brazilian businessman and football administrator who took over

the organisation in 1974 and ran it until 1998. Mr Havelange was Mr Blatter's boss at FIFA for many years, and according to the Zen-Ruffinen report he has continued to benefit from unauthorised payments from FIFA's coffers. Mr Havelange's daughter used to be married to Ricardo Teixeira, the much-criticised head of the Confederation of Brazilian Football.

Under Mr Havelange, a variant of Brazil's administrative and patronage system, which has done a great deal of damage to football in that country, was cemented into place at FIFA. Every member has one vote, so when the FIFA congress elects its new president, the Solomon Islands will carry the same weight as Germany.

Mr Blatter's critics say he has secured his position by spreading money and lucrative contracts throughout the developing world through FIFA's Goal project, which funds the construction of training centres and playing fields worldwide. Brian Glanville, the historian of the World Cup, thinks this “has been exposed as little more than a way to suborn third-world nations.” His view is echoed by many others.

Such generalised allegations on their own might not have been enough to start a challenge to Mr Blatter, but there was more. First ISL, FIFA's marketing partner, went bankrupt; then, earlier this year, a member of the Somali football federation claimed he had been offered thousands of dollars to vote for Mr Blatter in the 1998 FIFA election. Suggestions of bribery had been swirling around, but this was the first time anyone had gone on the record.

Mr Blatter was obliged to set up an inquiry into FIFA's finances and the ISL mess. But in April Mr Blatter suspended the inquiry. This ensured that the inquiry would be unable to issue its report before the FIFA election at the end of May. However, it also sparked warfare within the organisation, prompting Mr Zen-Ruffinen to go public.

The average football fan probably has no interest at all in any of this. FIFA is about to put on the greatest sporting show on earth. As long as the television pictures keep coming, why should anyone care about the machinations of the sport's governing body? But those inclined to shrug off the problems at FIFA should look at Brazil. The goings-on at the Confederation of Brazilian Football, run on the Havelange model, have contributed directly to the decline in crowds and standards in the domestic leagues, and have damaged the image even of the beloved national team.

Whether or not the allegations about Mr Blatter are true, the way to avoid such problems in future is clear: make the organisation more transparent. At present the internal finances of FIFA, and even the precise salary of its president, remain shrouded in mystery. This is unacceptable. And what applies to the game's governing body also holds for the clubs and associations that run football around the world. Too many football administrators are secretive, amateurish and incompetent. The players who will delight the world in South Korea and Japan over the next month are professionals, playing in the full glare of publicity. They will be praised for every success and held to account for every slip. It is time for the people running football to submit to the same exacting standards.

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High-tech companies

Mr PC goes to Washington

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America's technology industry is increasingly intertwined with government

WHEN PC Forum, an exclusive shindig for technology bosses, venture capitalists and other digerati, recently celebrated its 25th anniversary, the motto was “back to the frontier”. But the panels and speeches suggested a different destination. Most debates were about what government should or should not do. The high-tech sector is more afraid than ever of government intervention—which is why it is becoming as involved as any other industry in Washington lobbying. The process has been accelerated by the new emphasis on homeland security.

To some extent, the industry has come full circle. It was tax dollars that first primed the technology pump. Without money from the Pentagon, Silicon Valley might still be covered with fruit orchards. The Internet was for years a government-funded research project, and some big technology companies would not exist without government contracts. For example, Oracle, the leading database vendor, grew out of a consulting job for the CIA.

The prevailing free-wheeling, libertarian stance of the industry, always somewhat hypocritical, has been changing since the mid-1990s. Some date Silicon Valley's political coming-of-age to its 1996 campaign against a California initiative that would have made shareholder lawsuits much easier. This led to the creation of such groups as TechNet, a sort of high-tech lobbying group. There was also the catharsis of the Microsoft antitrust trial, which brought forth mass lobbying by both sides—as well as a noticeable rise in campaign-finance contributions.

Over the past few years, the industry has been beefing up its lobbying further. One pet issue is high-speed Internet access, known as broadband. Intel, Microsoft and others have long argued that the government should do something to get broadband more widely deployed (only about 9% of American households have a high-speed Internet connection). They argue that this would be a powerful driver of demand for computers, software and online services.

It was only after the Internet bubble popped and the technology industry went into recession, however, that companies really started pushing the issue. TechNet and others have called for a “national broadband policy”, which would give tax breaks to encourage innovation and prod the Pentagon and other government agencies into buying more broadband gear.

A controversial recent bill shows, however, that high tech's lobbying efforts are still not on a par with those of other big industries. Technology companies were

High tech's

taken by surprise when Disney and other media giants persuaded Senator Fritz Hollings to introduce legislation that would require a piracy-detection system to be built into all digital entertainment devices, including PCs. At a Senate hearing in February, only Les Vadasz, a senior executive at Intel, was there to testify against the bill. It would, he claimed, turn PCs into “nothing more than a more expensive version of a ‘dumb’ DVD player.”

lobbying efforts are still not on a par with those of other big industries

Nobody expects the Hollings bill actually to make it through Congress. But it may have achieved its main objective: to prepare the ground for more indirect regulation. Hollywood hopes that such legislative threats will pressure hardware makers to agree to copy-protection standards that could then be ratified by Congress.

The new climate

Arguably, all this could be called business as usual in Washington: industries defend their competing interests and, more often than not, end in stalemate. Yet recent events have changed the climate. For a start, there is the fallout from Enron's collapse. The firm's bad practices have led Congress to take a close look at the accounting treatment of stock options, the lifeblood of Silicon Valley.

Then there is the new emphasis on homeland security. This has not only brought about a sweeping anti-terrorism bill, called the Patriot Act, which gives law enforcers new surveillance powers, such as monitoring Internet traffic without a court order. Government is also becoming a key customer once again. It accounted for 23% of Oracle's revenues in the past fiscal year, for instance, although this impressive share may now shrink. It emerged recently that the firm sold the state of California (and, perhaps, other states) far more software than it needed.

One reason for government's return as a customer is that it has the means. The administration has proposed increasing the federal high technology budget from $46 billion in the current fiscal year to $52 billion in 2003. Big software firms are angling for a piece of the bigger pie. Oracle, Siebel and Tibco have all launched “homeland security initiatives” aimed at offering the government technology to integrate its disparate databases—and so helping it to identify possible terrorists. Moreover, since Washington expects technology to do much to improve security, vendors have made their top researchers available as government advisers.

Even start-ups are learning to love the government—after having been traditionally discouraged by venture capitalists from getting involved with the bureaucracy of public procurement. One sign is the sudden interest in In-Q-Tel, the CIA's venture-capital fund (yes, the spooks have one too). Since September 11th, the fund's chief executive, Gilman Louie, has been asked to review 1,200 business plans, compared with only 1,000 from the fund's creation in October 1999 to the terrorist attacks.

Since its inception, In-Q-Tel has invested in more than two dozen firms, such as Graviton, a maker of tiny wireless sensors, and SafeWeb, which is developing software that allows users (and thus secret agents as well) to surf the web anonymously. The fund was first seen mainly as a pet project of the CIA director, George Tenet, who wanted to give the agency early access to technology developed in the commercial world. But several other federal agencies are now considering using In-Q-Tel's services or starting their own venture-capital funds.

In-Q-Tel, the CIA's venture-capital fund, has invested in more than two dozen firms

It is not clear what the long-term effects of all this will be. Security is likely to play a bigger role in the design of technology—to the detriment of such things as additional product features, ease of use and performance. A more problematic outcome could be that the closer relationship due to the emphasis on homeland security will lead to a heavier regulatory environment for technology.

The rapprochement will, in any case, settle the question of whether the high-tech industry and government can remain at arm's length. As Intel's Mr Vadasz was heard saying at PC Forum: “We cannot say the net will have a huge influence on everyday life, and also say ‘Hey Washington, keep out of it'.”

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German wine

A bubbly little tale

May 30th 2002 | FREYBURG
From The Economist print edition

From eastern Germany, a rare success

ROTKÄPPCHEN, explains Peter Claussen, its marketing director, has nothing to do with the fairy tale (known in English as “Little Red Riding Hood”). This Sekt, or sparkling wine, takes its name from the red cap on its bottles. Rotkäppchen's rise, however, is almost a fairy tale itself. Eastern Germany has produced few companies or brands that can take on western rivals. Rotkäppchen, founded in 1856 and still based in Freyburg, a town in Saxony-Anhalt, Germany's poorest state, is an exception.

It remains, it is true, an overwhelmingly eastern drink. It has more than 55% of the eastern sparkling-wine market and only 3% in the more fragmented west. However, in January Rotkäppchen bought Mumm, a top western German Sekt house, from Britain's Diageo. With Mumm's brands, the company has become the country's biggest Sekt producer. Mumm's distribution system should also help to get more red-topped bottles on to western supermarket shelves. Hitherto Rotkäppchen has used independent distributors.

A century ago the drink was enjoyed, it is said, by Kaiser Wilhelm II. In communist times, it was a favourite of the authorities and an expensive tipple for ordinary folk. But it has not always fizzed. In 1990, the year of German unification, when liberated easterners turned to western goods, sales were a flat 1.8m bottles, down from 15m in 1987. Since a management buyout in 1993, however, sales have taken off, as easterners have returned to “their” Sekt, and capacity has increased to meet the corked-up demand. Around 50m bottles were shifted in the year to March 2001.

Few other eastern brands have made much headway in the west, even if easterners still swear by Bautz'ner, their mustard of choice, Kathi cake mixes, and Spee, a detergent now owned by western Germany's Henkel. Yet Rotkäppchen is not quite alone. This month Binding, a brewery in Frankfurt, in the west, decided to rename itself Radeberger, after an eastern subsidiary. Nationally, Radeberger is the stronger brand.

Rotkäppchen's success is likely to be confined to Germany. Mr Claussen says there are no exports to speak of. Past forays into neighbouring Austria and distant China yielded little. Germany's image as a land of brewers rather than wine makers does not help. In any case, satisfying Germans' thirst is demanding enough. Germans do not reserve the bubbly stuff for special occasions: the average household, says the national statistical office, gets through the best part of a bottle a month.

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Fiat

Running on empty

May 30th 2002 | ROME
From The Economist print edition

Where does salvation lie?

ITALY'S top bankers usually keep their weekends strictly for relaxation. On Saturdays and Sundays, they turn out only for big mergers or corporate crises. It was the second of these that persuaded the main lenders to Fiat, the country's leading industrial group, to gather in Rome on Saturday May 25th.

The bankers have been under pressure from Italy's central bank to reduce their exposure to Fiat, whose financial liabilities amounted at the end of March to a massive *euro*35.6 billion ($31.1 billion), of which *euro*13.4 billion was short-term debt. The Fiat group's net financial indebtedness, which takes account of financial receivables, cash and marketable securities, was *euro*6.6 billion, an increase of *euro*600m in the first quarter of the year, despite the arrival of *euro*1 billion from a rights issue.

Little wonder that Fiat and its bankers have been worried about downgrades from rating agencies that would damage the group's finances still further. On May 28th they unveiled a rescue plan for the beleaguered group. To lighten its burden of short-term debt, the banks are providing *euro*3 billion immediately, and will convert this loan into equity if need be. In return, Fiat will transfer 51% of the financial-services side of its car business to the banks, a move that will trim its gross financial debt by *euro*8 billion.

In addition, Fiat is committed to reducing net indebtedness below *euro*3 billion by the end of this year. Part of the improvement is expected to come from the flotation of Ferrari, a high-performance car maker owned by the group. Fiat hopes that the sales of other assets will do the rest. Teksid (in steel), Comau (in robotics) and Magneti Marelli (in components) are on the block, and there is talk that Toro, a large insurer, and FiatAvio, an aero-engine business, might go too. “Fiat must sell what is sellable, but it is in a weak negotiating position,” says a banker close to the group.

As for Fiat Auto, the heavily loss-making car business in which General Motors took a 20% stake two years ago, this week's agreement should give the group breathing space to knock it into shape before it exercises an option to sell the remaining 80% to GM. Rick Wagoner, GM's chief executive, says the ball remains in the Italians' court; the option would not normally come into play before 2004.

AP

Ferrari's a winning part of the business

Sorting out Fiat Auto before then will not be easy. Its factories are working at barely three-quarters capacity, which makes them uneconomic; its home market, which a decade ago Fiat dominated with a share of roughly 50%, is much tougher now. The company's poor model range and slow product development has been exposed to real competition. It is also weak in or absent from some profitable segments: its people-carrier, the Multipla, is so ugly that it sells only 50,000 a year.

Its Alfa Romeo marque, however, is successful. But, as one insider says, it is one thing to build on the Alfa brand in its niche; quite another to take on the likes of Volkswagen, Peugeot Citroën and a

recovering Ford Europe. GM may be attracted by the idea of acquiring Alfa Romeo and re-introducing the brand to the American market. How much of the rest of Fiat Auto it would want, though, may depend on the efforts of the new management team, installed in December, to sort things out. They are going to have to shut excess capacity (always hard in Italy) and accelerate the savings that are supposed to come from sharing platforms and engines with GM's Opel subsidiary in Germany.

GM Europe has a team working hard on plans to integrate Fiat in case it is offered to them. But the team has already struck some problems. One is that GM already has a lot on its plate integrating Daewoo (and its European operations). The other is that Fiat Auto has structured its supply chain with long-term contracts to other bits of the Fiat conglomerate, such as Marelli, Teksid and Comau. That severely limits GM's possible room for manoeuvre.

It is all very well for Umberto Agnelli, a senior member of the family that controls Fiat, to admit to shareholders this week that Fiat Auto's future might not lie within Fiat, and that Fiat itself might even cease to be a strategic investment for the Agnellis. But a rejection by GM would mean the Turin-based business would have no way out. No wonder the Italian government is girding itself for action.

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Corporate governance

Even in Wilmington it rains

May 30th 2002 | NEW YORK
From The Economist print edition

Delaware gets tough, sort of

AFTER the boom and the bust, the backlash. Barely a week goes by without fresh initiatives from regulators and politicians to improve standards of behaviour in America's boardrooms. Yet one change may not have had the attention it deserves. That could be because it is said to be happening in, of all places, Delaware.

Small, wealthy and welcoming, the state of Delaware once treated America's corporate elite like visiting rock stars. In return for their tax dollars, companies that made the state their home enjoyed the protection of its law courts, which sanctioned such aids as the poison pill and the "just say no" takeover defence. Corporate America still flocks to the state financial capital, Wilmington: more than 300,000 companies are incorporated under Delaware law, including more than half of the *Fortune* 500 firms. But the welcome may have lost some of its warmth recently. Increasingly, say the state's boosters, companies come to Delaware at the behest of shareholders, not management.

Not long ago, says Charles Elson of the University of Delaware's centre for corporate governance, Delaware's judges saw their job as protecting companies from the stupidity of their shareholders. Those attitudes, says Mr Elson, have undergone a "huge shift". Increasingly, the five judges of Delaware's Court of Chancery, which traces its roots back to medieval England, have been putting their faith in the sophistication of institutional investors, the importance of independent directors and the shareholder vote. As evidence, Mr Elson points to several rulings that have gone against management recently.

These include one that did away with the "dead-hand" poison pill (which continues to work even after an entire board has been sacked), and another which overturned changes to by-laws that had made it harder to unseat the board. Activist judges such as Leo Strine, a 38-year-old Democrat with a straightforward attitude to boardroom motives, have begun to make a reputation for themselves on the national stage as champions of corporate governance. Later this month, Delaware's chancery-court judges will sit down, for the very first time, to chew the fat with a number of big institutional investors.

Not everybody is convinced. Nell Minow of the Corporate Library, a watchdog website, says she was especially upset by a recent chancery-court ruling in favour of Hewlett-Packard, which had been accused of buying shareholder votes to push through its merger with Compaq. "The rulings are filled with a lot of good rhetoric," says Ms Minow, "but the decisions still go the other way." Ms Minow wants shareholder suffrage under Delaware law to be as sacrosanct as the right to vote under America's constitution. She is not alone in thinking that Delaware's judges are not yet champions of the oppressed. There may be no better time for change.

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Bicycle makers

Rough ride

May 30th 2002
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Old names have lost their puff

THE bicycle-making business is changing beyond recognition. In the past couple of years, a flood of Asian imports has overwhelmed bike manufacturing in America: 95% of the “budget” bikes now sold there are made in China. Of the 110m bikes built worldwide in 2000, over 40% were made in China, India or Taiwan.

Many famous names in America have gone bust, including Schwinn/GT, the largest manufacturer. Annual American bike production has tumbled from 9.9m units in 1994 to just 500,000 today. The same has happened in Europe, with the parent company of Britain's Raleigh declaring bankruptcy last year and other manufacturers surviving only thanks to protection.

Import tariffs and anti-dumping duties against Asian products make European bikes cost-competitive, but American experience suggests that they do not stop the flood completely. The real problem faced by western manufacturers is that Asian firms are forcing the pace of quality and technology, as well as price. As with motorcycles 30 years ago, Asian bicycles are making American and European offerings look not only expensive but old-fashioned as well.

Reuters

Another new model from Asia?

Some of the reasons for Asia's dominance are obvious: cheap labour feeds into low prices, and huge local markets allow economies of scale. Less obviously, these large markets have fostered a big research base in such countries as Taiwan, which are switching production to cheaper places (China in particular) but developing fancy components at home. Component-making has been dominated by such firms as Japan's Shimano and Taiwan's SunRace since the 1980s. Shimano in particular, working closely with Taiwanese bike makers such as Giant, developed the fancy gears and brakes now fitted to even the cheapest bikes. Most western component makers have been forced out of business. Weinmann, a famous American name, recently closed a big plant.

Now Taiwan is forcing the pace in other areas too. Its 400-odd bicycle makers are busily developing new types of aluminium alloy to make stronger, lighter models. Such fancy materials filter down to cheaper bikes very quickly. Mass retailers—such as Wal-Mart in America and the Wal-Mart-owned Asda in Britain—now offer aluminium bikes for under $150; a few years ago aluminium was reserved for the priciest racing models.

Confident Taiwanese firms are now trying to revive western markets, which have been flat since the mountain-bike boom ended a couple of years ago, by shifting the emphasis from leisure cycling to commuting. This calls for a different sort of machine from the mountain bike, and Taiwanese firms are developing new models designed to take the puff out of a daily ride to work. Giant, for example, is one of several firms that are developing electric bicycles.

What most Asian manufacturers lack, however, is a brand name to sell in western markets. The two exceptions, Giant and Shimano, suggest that the best Asian manufacturers could develop brand awareness, given time. The quickest way, though, is for them to buy western firms for their names and distribution networks.

This is already starting to happen. Merida, the second-largest Taiwanese bike maker, has bought a stake in one of its fancier American rivals, Specialized. Meanwhile, SunRace has bought Sturmey Archer, a

well-known British component maker. The betting is that other big names will follow.

So is it the end for American and European bike makers? Not necessarily. The two big American firms still producing at home, Trek and Cannondale, have both thrived by developing innovative racing products; Trek has won the Tour de France for the past three years.

Their trick could be repeated by European firms such as Sweden's Cycleurope, which owns the Bianchi and Peugeot bicycle brands. Some of these manufacturers quietly get their cheaper models made in Asia, but they recognise that they will have to better Asian quality if they are to succeed. The days when they could rely on a grand old name are gone.

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Vodafone

Written down but not out

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Things are not quite as bad as they seem

VODAFONE is biting the bullet. On May 28th the world's largest mobile-phone operator announced a loss of £13.5 billion ($19.3 billion) for 2001/02, the largest annual loss in British corporate history. Although underlying performance was quite strong, with turnover rising by 52% to £22.8 billion, the result was dragged into the red by a series of writedowns, some of them relating to Vodafone's massive acquisition of Mannesmann, a German telecoms company, two years ago.

Of course, Vodafone is not alone. In recent weeks France Telecom has written off *euro*10.2 billion ($9 billion), KPN of the Netherlands *euro*12.4 billion, and Deutsche Telekom *euro*15.2 billion. This week Deutsche Telekom's chief executive, Ron Sommer, faced a grilling from shareholders after his debt-laden company's share price fell to a record low.

But Vodafone is in many respects a special case: it is almost a purely wireless firm. During the boom, this boosted its shares far above those of stodgy competitors, most of which operate both mobile and fixed-line networks. Fixed-line, now regarded as a boring but reliable business, was viewed at the time as yesterday's technology. This meant that whereas Deutsche Telekom, France Telecom and the rest had to pay for their acquisitions in cash, running up huge debts in the process, Vodafone was able to pay using its own vastly inflated shares. Although the *euro*163 billion paid for Mannesmann now seems astronomical, the resulting writedowns are mere accounting adjustments that have little impact on Vodafone's overall health. As one analyst puts it: “They bought a frothy asset with frothy paper.”

But what of the company's future prospects? With over 100m customers in 28 countries, Vodafone is unique in having a global “footprint”. Analysts differ, however, on whether this footprint, and Vodafone's pure-wireless strategy, are good or bad. Marina Gibbs of Spectrum, a consultancy, says Vodafone's global reach gives it more clout when negotiating equipment deals, and enables it to centralise research and development. It is true that Vodafone's American subsidiary, Verizon Wireless, is adopting a different third-generation (3G) technology from its operations in other countries. But the American market, says Ms Gibbs, is so large that this hardly matters.

Sceptics argue, on the other hand, that prospects for the entire wireless sector are grim for the foreseeable future, and that Vodafone is merely the best of a bad bunch. The global footprint, one analyst notes, matters only to jetsetting business customers, who account for less than a fifth of all mobile-phone subscribers. As for Vodafone's ability to derive economies of scale from its global reach, the company's recent announcement that its capital spending will be down by 15% for the next couple of years seems to have more to do with delays in rolling out 3G networks than reduced costs.

Worse, Vodafone's size—it accounts for around 6% of the FTSE 100 index—means that it is now a proxy for the entire wireless industry and is disproportionately affected by bad news. Vodafone may have cleared some of the fog this week, but the prospects for the wireless-telecoms business remain murky.

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Travel agents

Fit for DIY?

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From The Economist print edition

September 11th may have changed the travel business for all time

TRAVEL agents have been around at least since Thomas Cook organised his first tours abroad in 1855. But today they are under threat. Squeezed on one side by the urgent desire of airlines and hotels to cut costs, and on the other by the enthusiasm of consumers for “disintermediation”—cutting out middlemen by using the Internet—they are between a rock and a hard place.

In March, Delta Air Lines eliminated entirely the commissions that it used to pay for tickets sold through agents in America. (For some time the airline had been known in the industry as “Delta Evidently Loathes Travel Agents”.) Those big airlines that did not follow suit have cut their commissions sharply. Then in early April Hertz, the world's biggest car-rental firm, announced that it too was eliminating agents' commissions on vehicles rented by its corporate clients. Two days later, Avis (“We try harder”) announced that it was doing the same. Big hotel chains have cut their commission rates too.

The pressure on these travel businesses to cut costs has been compelling. Last year was one of the worst the industry has known. Delta lost $1 billion; North American visitors to London hotels were down by 25% according to PKF, a London-based consultancy. This year the rebound is unlikely to be spectacular. The World Travel and Tourism Council, an industry association, is forecasting a 3.9% decline in business travel in 2002 and no growth in personal travel and tourism. Hertz said its elimination of commissions was down to “weak travel demand and the need to further reduce costs without affecting customer service”.

The desire to slice agents' commissions is not new. In 1995 several American airlines put a $50 ceiling on commissions for domestic tickets. But it is one thing to reduce commissions, another to eliminate them entirely. The first has forced agents to improve their efficiency, and led to an upsurge of low-cost online intermediaries, mostly mere clones of the offline agencies, similarly designed to push suppliers' surplus product. The second forces agents to come up with a totally different business model.

Since they can no longer rely on revenues from suppliers, the agencies are being forced to charge their customers. Commissions are being replaced by fees of various kinds, the basis for which is still being worked out. In May, for example, Rosenbluth International, one of the world's biggest corporate-travel agents, introduced a new pricing policy. From now on it will itemise its transaction fees (per ticket, for example) and its fees for the management of a customer's account separately in its invoices. Previously, agents bundled these together, confusing and annoying clients. “This is a bold departure from current industry practices,” claims Ron DiLeo, a senior executive with Rosenbluth.

But charging fees is only adding to customers' incentive to use the Internet to cut agents out of the loop altogether. Both business and leisure travellers are shifting from online browsing to online buying. The low-cost carriers that have become so familiar, particularly at European airports, have pioneered the direct selling of tickets via their websites. For instance, easyJet, a successful British low-cost carrier, now sells 90% of its seats through its own site.

Hotels are also discovering that the web can be a powerful and cheap distribution channel, and not just an online brochure. In May, two big chains, Starwood and Six Continents, said they plan to offer customers 10% off the lowest rate that they can find at any online travel agency—such as Expedia or Travelocity. Lorraine Sileo of PhoCusWright, an industry research organisation, says the hotel chains “feel they need to take back distribution” from the commission-based online agents.

Traditional offline agents are themselves struggling to climb on to the Internet bandwagon. Both Rosenbluth and American Express sell a range of e-commerce “solutions” that help clients to manage

their travel budgets and the expanding number of online options. This is a fast-growing area.

There is no doubt that the travel business is rapidly moving online. More than 15% of all leisure travel in America is already booked online, and a recent survey by Accenture, a consulting firm, found that 60% of American consumers planning to fly this year intend to book their travel electronically. Fewer than a quarter intend to use a traditional agent.

More than 15% of all leisure travel in America is already booked online

One of the most profitable niches in the leisure market is already Internet-savvy. “Free independent travellers” (FITs), defined as people over 35 and of above average income who like to travel in small groups, usually as couples, are prepared to pay for good advice. Their bible is Condé Nast's *Traveler* magazine, in which they are directed to websites selling, for example, rooms at the renovated Villa Feltrinelli, beside Lake Garda, from $395 a night.

The profusion of online offers leaves plenty of opportunity for intermediaries to add value for corporate and leisure travellers by steering them in the right direction. To do that, though, they need to become more like professional-services firms, rather than second-hand car dealers. The travel-agency system of the future will be based on helping customers to buy what they want, not on helping suppliers to flog what they've got.

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Face value

Mall content

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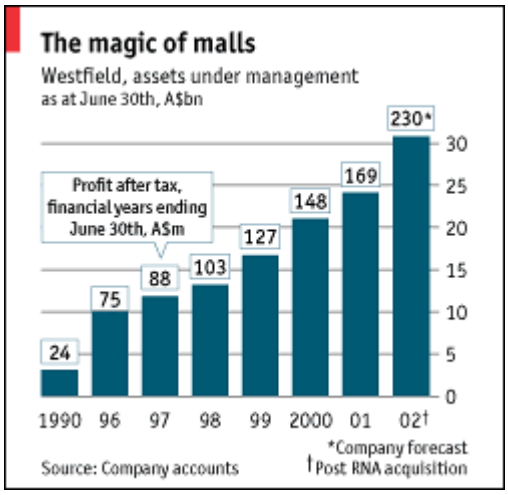
Australia's Frank Lowy wants to teach America a thing or two about shopping malls

"THERE are no other shopping-centre companies in the world that are global," says Frank Lowy, chairman of Westfield Holdings, which reckons to be Australia's best-performing company of the past four decades. Boastful stuff, to be sure, but accurate too. Mr Lowy can fairly lay claim to being the industry's only global predator. From Australia, where 70% of the population lives within half an hour of a Westfield site, to Britain, New Zealand and America, Westfield is fast becoming the mall equivalent of, say, McDonald's or Marriott.

Westfield owns and manages 108 shopping centres around the world. It has enjoyed double-digit profit growth in recent years (see chart). The expansion has been too fast for some, however. In America, where two bold acquisitions this year have made Westfield the largest mall operator in California, Connecticut and Maryland, and the second-largest in the whole country, Mr Lowy has attracted controversy. In Britain he was mauled in the press for his business links with a member of the House of Lords who plays tennis with Tony Blair, the prime minister. But although chutzpah and connections certainly help, the real source of Mr Lowy's commercial success is more subtle: his financing model.

For most of his life, the prospect of Mr Lowy becoming the second-richest Australian and a global property tycoon would have seemed far-fetched. He was born in 1930 into a Jewish family in Czechoslovakia. Only 30 Jews from his community survived the Holocaust. He spent his childhood on the run. He scavenged for food in Budapest to keep his mother alive, and lay awake at nights to the sound of gunfire and Jews being lined up in the streets. To this day, he never sits with his back to the door. Insecurity, he says, is his dominant character trait, and it shows in his approach to business.



Yet insecurity is only part of it. After the second world war, Mr Lowy fought in Israel's war of independence. That struggle taught him that camaraderie could overcome insecurity; it turned a victim into a fighter. "When you are young and in danger you develop skills," he says. These can come in handy when transferred later to running a company.

Mr Lowy's survival skills served him well in Australia, where he arrived in 1952. He found himself running a delicatessen that catered to the tastes of fellow Central European immigrants. Then he started buying up properties in the mostly empty farmlands west of Sydney—hence "Westfield"—and soon moved into better locations. He became fascinated with America; and, above all, with the way its shoppers were flocking to the new retail concept of the mall. Australians and Americans were similar, Mr Lowy reckoned, and so he pioneered the same concept in Australia, and got rich.

His big idea came much later, once he understood that the shopping-centre business really consists of two different types of income stream. One is rental income from the ownership of properties—not very risky, and so ideal for investors such as pensioners. The other comes from the construction and management of the centres. This is more volatile, and so attracts a different kind of investor. Financial theory suggests that offering these two income streams separately to the capital markets should lower the overall cost of financing the shopping centres. That cost advantage, in a nutshell, is what now helps

Westfield to outgun its rivals.

It works like this. The malls themselves are owned by trusts listed on the Australian stockmarket. One trust has the Australian assets; another the American ones; a third, for the European properties, is in the works. These trusts pay a management fee to Westfield Holdings, Mr Lowy's vehicle, which is also listed. The principle is that of a mutual fund, in which investors can buy into the fund or the manager, or both.

In a way, indeed, Westfield is the Fidelity of shopping malls. Pensioners and the like buy into the trusts, which use the money to develop malls. The trusts then pay a fee to Westfield to manage the malls. This separation of the business—and the balance sheet—into two parts is either a stroke of genius or a bit suspect, depending on whom you talk to.

In a way, indeed, Westfield is the Fidelity of shopping malls

Australian investors, who know Mr Lowy well, love this model and finance it with enthusiasm. But American investors are sceptical. Mr Lowy wooed them once, but after a lukewarm reception he delisted his American trust last year.

Persuading America

The coolness is partly a reflection of Americans' bad experience in the 1980s investing in real-estate investment trusts (REITs) that were “externally managed”—ie, similar to the Westfield model. At that time, several of the external managers siphoned returns from the REITs, by overcharging or dumping bad properties into them. As a result, the REITs badly underperformed. Ever since, Americans have stuck to property funds in which ownership and management are under one roof, apparently believing that this is the only way to avoid conflicts of interest.

Mr Lowy and his three sons, who run Westfield with him, know that to keep expanding they must reach beyond Australia's small markets and convince Wall Street. And they reckon they can. After all, unlike the REITs of the 1980s, Westfield's trusts are outperforming their peer group. Also unlike the old REITs, which were managed by privately held companies, both the trusts and the manager are listed. This makes the entire exercise transparent—and arbitrageable, should the need arise. An investor who thinks the management company may be taking advantage of the trusts can simply buy shares in the former and exit the latter.

Most Australians are sure that, in time, even Americans will learn to trust Mr Lowy. There is a bit of pride in this too. Australia would love to re-export an American idea, malls, with a slight improvement from down under.

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Zambian copper

Tragically undermined

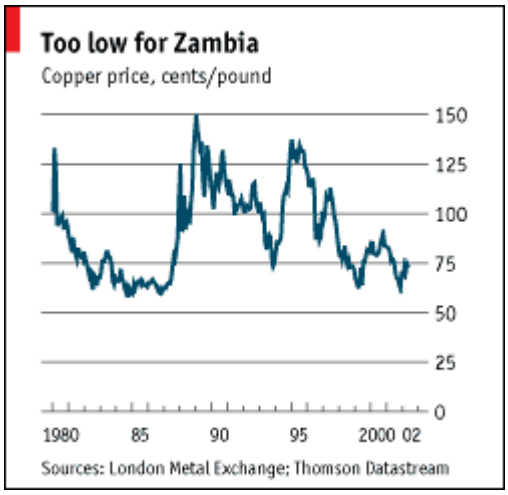
May 30th 2002 | JOHANNESBURG AND LUSAKA
From The Economist print edition

Only two years ago, Zambia's rich copper mines were privatised. Now they are struggling to stay open. Their fate is an object lesson for the rest of Africa

ZAMBIA'S copper industry, which only last year still boasted a rosy future, seems to be staggering towards a rather gloomier end. A group of worried bystanders—the World Bank, the Zambian government, private investors, the mine workers and their families—are looking on, wringing their hands. Some 15,000 jobs and Zambia's biggest industry are threatened by the mines' possible closure. What has gone wrong?

Consider first the invisible hand of the market. Zambia's copper is too expensive. Two years ago, when the mines were privatised, it cost 100 cents to dig out every pound of copper. But the world price at the time was just 84 cents. Last year, efficiency improved and the Konkola Copper Mines (KCM, the country's largest) turned out a pound of copper for 85 cents. But that, sadly, was still well over the market price, which had by then fallen to 75 cents (see chart).

It is not market forces alone, though, that are killing KCM. Other copper mines have also been hurt by low prices, but the more efficient ones in Latin America are likely to survive. The company that is fleeing Zambia, Anglo American, is not fleeing copper. Indeed, it is ready to spend $1.3 billion on a copper mine in Chile.



Instead, look to other culprits: corrupt and vacillating politicians; chronic mismanagement; complicit donors; and investors worried by “political risks”. In short, the same cast of characters so evident in other parts of resource-rich Africa. The tale of Zambia's mines should be a warning to all of them. In the words of one South African mining analyst: “It is a tragedy, a case study of what happens when the consequences of bad policies endure.”

Copper cropper

The mines were once the pride of southern Africa. At their peak they produced 12% of the world's copper; by the mid-1970s 700,000 tonnes were being dug out in northern Zambia every year. Copper

wealth helped to make Zambia one of Africa's most urbanised countries. Although copper's contribution to the economy has declined, it remains uniquely valuable for the foreign exchange it earns. In 2000, the metal was still Zambia's main export, despite the mines' long-drawn-out decline. But already by then production had fallen below a third of its peak.

Donors then insisted that aid to Zambia, worth around $1 billion a year in the mid-1990s, be made conditional on the government's privatising the mines, which it had owned and run since 1970. In 2000, a debt-relief package of $3.8 billion was promised to ease the sale, making Zambia among the biggest recipients of official aid in sub-Saharan Africa.

Frederick Chiluba, the country's president from 1991 until early this year, set about the task of privatising with some zeal. Of 287 state companies intended for private buyers, 251 have been sold. By far the most important was KCM, but it took Mr Chiluba nine years of haggling finally to agree to its sale. In 1998 he turned down an offer of $165m as insultingly low. The value of KCM slumped lower and lower, along with the price of copper, until a consortium of buyers, led by Anglo American, paid a mere $90m for it in March 2000. At the time this was hailed as a bargain for Anglo and its partners, and also as a great opportunity for Zambia to kickstart its economy with more private capital.

The mining company boasted that it would take only 12 months to make KCM profitable and “world class” once again. Journalists were shown bustling workers and gaping open-cast pits, and reminded that investment had boosted the whole northern region. Now those boasts ring rather hollow. Anglo American said in January that it would sell, transfer or close its Zambian assets, and that it would write off $350m in the process. A month of talks in London has produced an apparent deal to keep the mines running until a new partner is found. But any new company will have to invest heavily—or the mines will remain under threat.

In retrospect, Anglo clearly made a mistake going back to Zambia. The company says it was surprised by the low copper price and by how rotten KCM had become. “We underestimated the state of the copper mines when we assumed management,” says Tony Trahar, Anglo's chief executive. More precisely, the mines had been looted and the machinery stripped. Vehicles had been left to rust and shafts allowed to flood. Even malaria, once defeated, had returned to infect the workers.

Corruption costs

Kenneth Kaunda, who was president of Zambia from 1964 to 1991, says: “When we [the state] took over control of the mines we sent young people overseas to gain experience of running industries, and they did quite well.” In fact, under state ownership the mines became unproductive, inefficient and overstaffed. The “young people” had no means to invest and ended up “scavenging”—digging out the best, lucrative seams quickly, and neglecting the more costly parts which give mines a longer life. Instead of using profits to recapitalise operations, and to dig deeper into deposits when the copper price rode high, the state managers just scraped out what was easily available. In the long term that meant higher costs—and the mines' ruin.

On top of mismanagement and a lack of investment came chronic corruption. For the mines' failure, Mr Kaunda blames his successor, Mr Chiluba, and also theft by managers and politicians: “There is corruption from the highest to the lowest. Everything has collapsed,” he says. Reports by such groups as Transparency International called Zambia's privatisation programme a “looting exercise”, and parliament investigated the sale of the copper mines. It became “a case of many hands in the barrel” says one mining analyst. Even the country's own privatisation agency pointed out worrying “anomalies” in the sale of the mines.

Anglo American's consortium was mostly interested in a longer-term goal: huge deposits deeper underground. It hoped that investment in the shallow mines would produce cash to finance $300m-worth of work in a deeper and far more valuable operation at the so-called Konkola Deep Mining Project. There, 400m tonnes of copper sits in one of the richest deposits in the world. This was the main reason Anglo returned.

But Anglo now says that Konkola Deep will get no more investment. Work has stopped there and 600 workers will lose their jobs. It says that $500m-1 billion would have to be spent in the deep mines. And since the shallow ones merely swallow cash, there is no money available for the deep work. Without the deep mines, and with only eight years (and perhaps less) of deposits remaining in the shallow ones, Anglo says the prospects in Zambia are now too poor to carry on.

In January, a new government took office, a few days before Anglo announced that it planned to leave. The new finance minister, Emmanuel Kasonde, promises to keep the mines going and to find a new “strategic partner” to replace Anglo. On May 25th he said his officials and Anglo were drawing up a bidding document for KCM, so that a new partner (possibly Canada's First Quantum Minerals) could take over. Mr Kasonde says his government will offer no subsidies. The World Bank this week promised to stand by Zambia “during this time of crisis.” But even if a deal prolongs KCM's life for a few more years, copper's contribution to the economy seems bound to continue to decline.

Sad conclusions

Several broad lessons can be drawn from this unhappy tale. The first is pushed by Laurence Clarke, the World Bank's representative in Lusaka. He argues that African economies must move away from dependence on a single commodity. To earn the foreign exchange needed to pay for imports and to service debts, reliance on a single commodity (like Zambia's copper) is just too risky.

Other countries riding high today because of good prices for a single commodity, such as Botswana, which is doing well from diamonds, should stimulate new, competitive industries, such as tourism. Very few of Africa's economies have been able to transform themselves from colonial-era mineral extraction and agriculture to a more diversified industrial base.

In the worst cases, the extraction of a country's lucrative resources—diamonds in Sierra Leone, diamonds and oil in Angola, oil in Nigeria—has actively encouraged a corrupt elite, fuelled wars, destroyed state institutions and distorted exchange rates. Some analysts wonder whether much of Africa would not be better off if its oil and diamonds were simply left in the ground.

A second lesson for Africa is the long-term cost of delaying privatisation. It was bad luck that the copper price slumped as Zambia's government dithered over the sale of its mines. But if they had been sold five years earlier, the buyer might have had time to invest and dig down to the lucrative deep deposits while the copper price was high, and would then have stayed in business for another decade at least. The delay simply meant there was more time for looting and for the mines to become less efficient.

Another weakness shared by Zambia's mines and much of the rest of Africa is the lack of capital investment. David Hale, chief economist with Zurich Financial Services, believes that the shortage of foreign direct investment (FDI) is a chronic problem for the continent. He reminded a mining conference in Cape Town recently that in 1980 Africa got nearly a sixth of the world's total FDI; by 1999 it attracted less than 7% of it.

African countries invariably cluster at the bottom of annual lists of FDI per head. Remove tens of billions of dollars invested in oil installations in Nigeria, Angola, Gabon and (more recently) in Sudan and Equatorial Guinea, and the stock of capital invested elsewhere in the continent is pitifully small.

Progressive African leaders are acutely aware that lack of capital can put paid to the continent's development. South Africa's president, Thabo Mbeki, has spearheaded a plan to attract more. Known as the New Partnership for Africa's Development (Nepad), it proposes that member countries do more to tempt foreign and local investment by fighting the sort of ills that plagued Zambia's mines: corruption; mismanagement; and a lack of respect for the law or for long-term progress.

In return, it is hoped that rich countries will direct more aid, free more trade and encourage private investment. The Nepad team calculates that if Africa were to get an extra $60 billion-70 billion a year in foreign investment, its economies could grow fast enough to give them some hope of reducing poverty. But change is always a child of politicians' whims. Even Mr Mbeki's government, relatively friendly toward foreign investors, is now considering weakening mining firms' mineral rights—a move that, quite rightly, makes all foreign investors skittish.

A final lesson from Zambia's mining disaster: after a long period of misrule, do not expect quick, or guaranteed, recovery. Anglo American was too optimistic in believing that it could turn around decades of mismanagement and looting in one year. The longer businesses are allowed to stagnate, the harder it is to resuscitate them. Time is not on Africa's side.

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Terrorist finance

Follow the money

May 30th 2002 | ABU DHABI AND LONDON
From The Economist print edition

The war on terrorist financing is progressing, with delays

Get article background

CHOKING off the money that funds terrorism sounded, after September 11th, like a neat and peaceable way to help prevent future attacks. After all, a large part of what was discovered about the identity of the 19 hijackers came from following the money they spent on flight schools, rent and plane tickets. Since then, America and Europe have frozen the assets of dozens of suspected funders of terrorism. Through the United Nations as well as the Financial Action Task Force (FATF), the international body tackling money-laundering, they have put pressure on countries to pass legislation to outlaw the financing of terrorism. How effectively?

People leading the effort to cut off funding say that there is already evidence that terrorists have been disrupted by increased financial scrutiny. On the other hand, according to a UN official, there is no sign that the flow of funds to al-Qaeda from charities in Saudi Arabia has ceased. America has put nine Islamic charities on its list of organisations that fund terrorism, such as domestic branches of the Benevolence International Foundation. Yet the charities are small compared with those that operate in Saudi Arabia under the protection of the government, says Nawaf Obaid, an oil and security analyst.

Despite the flurry of law-making, most countries, including the G7, do not yet obey the eight new rules on terrorist financing that the FATF proposed last autumn. In America's case, this is partly a legacy from before September 11th, when it failed to observe a good number of the task-force's earlier rules against money-laundering. In its assessment of how closely it follows the new recommendations, America admits that insurance companies, stockbrokers and bureaux de change do not have to report suspicious transactions, though brokers will soon have to. Even if America's regime against terrorist financing were impregnable within its own borders, however, terrorists could still take advantage of its links with countries that take a laxer attitude.

Since so many of the FATF's members will miss the deadline at the end of June for the eight rules, the task-force is unlikely to begin a process, as it planned, to recommend measures against countries which are doing little to fight terrorist financing. The mood at the task-force, in fact, is to offer technical assistance rather than to punish laggards. Some countries argue that blacklisting countries—in the Gulf, for example—would hinder international co-operation in the wider war on terrorism.

America's lists of terrorist financiers were accepted by other countries in the months following September

11th. Lately, however, quarrels have broken out. To begin with, the lists' reliability has been questioned. Arabic names were misspelt, basic identifying details, such as place and date of birth, were left out, and some of the people included turned out to be dead. Some countries disagreed about which organisations should be labelled as terrorist. Switzerland and France, for instance, stopped the Revolutionary Armed Forces of Colombia (FARC, a guerrilla army) from going on the European Union's roster of terrorist organisations, since that might hinder their efforts to help peace in the country. A list of organisations, issued by America in April, started out with 100 names, but got whittled down to ten after a number of countries had their say.

Last November America listed al-Barakaat, an international money-transfer company, as well as three Somali citizens who work for the company in Sweden. The Swedish government froze their assets, but now it believes that the men are innocent. A similar situation has developed in Switzerland, where Mohamed Mansour, a retired professor, has been listed for being on the board of Bank al Taqwa, another accused institution. The Swiss government is investigating his case to see if he is not in fact innocent. Jacques de Watteville, head of economic and financial affairs at the Swiss foreign ministry, says that there is not yet a clear way for innocent people and organisations to come off the blacklists. The need for a delisting mechanism is under discussion among UN members.

The effort to cut terrorists off from their finances has a long way to go. The next priority will be to devise an effective way to tackle the problem of Islamic charities; task-force members acknowledge that its eighth recommendation on terrorist financing—that countries should review their laws on non-profit organisations—is too vague to be of help.

Another subject for debate is *hawala*, a kind of trust-based network for moving money that operates in many countries and mostly falls outside regulation. Late last year, Congress was minded to ban *hawala* outright, believing it a key culprit in helping terrorists to move money about. Still, for poorer people remitting money home and so forth, *hawala* is a boon. At a conference last month in Abu Dhabi, held by the central bank of the United Arab Emirates, American officials said that the cheap efficiency of so-called white *hawala*, as opposed to the criminal kind, makes it a “beautiful” system.

In the back of the minds of those trying to shut off money, however, is how little terrorists need. Hassan Salameh, a captured Hamas bomber, said that the budget for a suicide bombing is about $1,500.

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Helping the poor

Of celebrities, charities and trade

May 30th 2002 | KAMPALA
From The Economist print edition

Charities are not yet free-traders, but some are halfway there

IN THE energy-sapping heat of Uganda, women bend double to tend rows of flowers destined for export to Europe. According to Bono, an Irish rock star, this scene of back-breaking drudgery represents “globalisation at its best”.

AP

The odd couple

He is right, of course. Growing flowers is hard work, but no more so than subsistence farming, which is the alternative; and it pays better. Everyone benefits: Europeans get roses in winter, and Ugandan rose-growers eat better and put their children through school. This is the sort of thing that advocates of heartless global capitalism, such as *The Economist*, have been banging on about for 150 years, but it is rare to hear a rock star make the same point. And he is not alone.

A number of charities have noticed that north-south trade is not always exploitative. Oxfam has just released a fat report on trade, in which it denounces rich countries' tariff barriers against imports from poor countries, and their subsidies for farmers. Christian Aid has also condemned northern protectionism. Few charities yet call for poor countries to reduce their own tariffs and subsidies, but it is at least a start that some realise, as Bono puts it, that Africans “don't want to spend the rest of their lives on the nipple of aid”.

Bono has spent the past two weeks touring Africa with Paul O'Neill, America's treasury secretary. It was an odd spectacle: American finance ministers do not often hang out in African slums, and rock stars rarely take part in roundtable discussions about development economics. But the trip revealed a few things about the changing relationships between governments, charities and celebrities. Politicians in democracies generally do what voters want, so if charities want them to be nice to Africa, they must persuade voters to demand this. And to attract voters' attention, it helps to have a few celebrities.

This tactic succeeded spectacularly during the “Jubilee 2000” campaign for debt relief. By using Bono and other glittery folk as loudhailers, campaigners persuaded a record 25m people to sign their petition, which then nudged rich-country governments into cancelling a hefty whack of poor-country debt. Similar tactics helped to persuade the Bush administration to take a fresh look at foreign aid. Mr O'Neill used to argue that aid was wasteful and created dependence; now he says that rich countries should give grants, not loans. The question is, can the celebrity-charity alliance persuade voters that rich-country protection hurts the poor?

Rich countries slap huge tariffs on agricultural imports, and spend almost a billion dollars a day on farm subsidies—more than the entire output of sub-Saharan Africa. These barriers drastically reduce what poor countries can earn from farming, which is what most of their people do. Oxfam estimates that northern protection costs developing countries $100 billion a year, or twice what they receive in aid.

When rich countries liberalise, the poor swiftly benefit, as that Ugandan flower farm illustrates. Until recently, the Dutch flower industry was heavily subsidised, and Ugandan growers, despite lower labour costs, could compete only during the European winter. But as those subsidies have been cut, Ugandans have started to harvest all year round, and the country's flower exports have blossomed, from nothing in the mid-1990s to $16m last year.

Even so, compared with what Uganda could make from exporting peanuts to America if only they did not face tariffs of up to 164%, this is, well, peanuts. Ugandans who want to sell rice to Japan are hobbled because 93% of the market is reserved for Japanese growers. If they try to sell sugar to Europe, they must hack their way through a jungle of rules so thick that even experts cannot get through it.

Africa's share of world trade is a tiny 2%, but the continent's exports are still ten times what it receives in aid. A small increase in trade would make far more difference than a proportionately similar rise in aid. Bono is hazy about how this could be done, but DATA, the lobbying group he fronts, insists the rich world must lift quotas and duties on African exports, and cut subsidies harmful to African growers.

That would be helpful. But there is also a selfish case for ending protection: that it would save taxpayers a fortune and make their food cheaper. Europeans pay twice as much for a basket of groceries as do more liberal New Zealanders. The farm bill that George Bush signed last month is expected to cost the average American household $4,377 over the next decade. Poor Americans will suffer most, because they spend the largest share of their incomes on food. The farmers being subsidised, meanwhile, are rarely poor. The average American farm reports a net worth of $564,000, twice the average household's.

This continues, presumably, partly because voters are unaware of it. “Fair trade” charities and their celebrities could surely stir a lot of people to righteous anger over farm subsidies if they tried. But being charitable folk, they prefer to make liberalisation sound like the sacrifice it is not.

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Madagascar

Swift collapse

May 30th 2002 | ANTANANARIVO
From The Economist print edition

A political crisis has reversed economic development

Get article background

GULLIVER missed one country in his travels to Lilliput, Brobdingnag and Laputa. Madagascar is as bizarre as any island imagined by Jonathan Swift. It is also a case study in a country that needs internal change before external aid. Two men claim to be the president, two more the prime minister, two capitals have been proclaimed, two parliaments and two central banks. Since a disputed election in December, the island has been riven between Marc Ravalomanana, a yoghurt tycoon who won the vote and controls the mountains, and Didier Ratsiraka, who ruled the country for more than two decades and still controls the coast. It is costing the country dear.

Last year poverty-stricken Madagascar grew by 6.7% and was one of Africa's most hopeful economies. Much growth came from booming textile exports to America, though tourism, aid and debt relief helped too. Between 1997 and 2001 investment in the country grew tenfold. Owners of new clothes factories in a tax-free export zone in the main city, Antananarivo, worried that skilled labour would run short.

Now investors are rushing for the door. Clothes makers are moving to Lesotho, Tanzania and other countries with low-tariff import agreements with America. At least 100,000 jobs have been frozen or lost this year. An industry that took three years to build has been destroyed in three months, one donor says. Roads have been blocked in and out of Antananarivo, and bridges blown up. Getting rice from paddies to plates will be hard this year; food prices are rising, and already there are signs of child hunger in Antananarivo. Fuel is scarce and expensive. Tourists and many aid workers have disappeared.

The two sides were supposed to have met in Senegal this week, to discuss how to limit the economic collapse. That was before Mr Ratsiraka's prime minister was arrested by soldiers loyal to Mr Ravalomanana, and some of his guards were shot dead. The longer it drags on, the more the country suffers. World Bank officials say that the crisis costs Madagascar the equivalent of a year's worth of debt relief every few days.

The six main banks can extend no credit, since they have no income. The country's governments pay nothing on the treasury bonds the banks hold; businesses cannot repay their debts. Nobody knows which central bank is in charge, so reserves overseas are frozen. Donors unsure of which government is in charge have dispensed nothing since January. People loyal to Mr Ratsiraka have even stolen a machine from Mr Ravalomanana's central bank that is used to transfer funds and communicate with the world's financial institutions. The name of the device? A Swift machine.

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Central Europe and the euro

Up for adoption

May 30th 2002
From The Economist print edition

Some EU candidates favour an early move to the euro

Get article background

Reuters

Coming soon to a country near you

WHILE three members of the European Union, Britain, Denmark and Sweden, dither about adopting the euro, some Central European states who would like to be EU members are considering putting the cart before the horse. They think of making the euro their official currency even before joining the Union.

Physically, at least, neither the European Commission nor the European Central Bank (ECB) can do much to stop them. Indeed, Montenegro and Kosovo—although not EU candidates or even independent countries—switched, from D-marks to euros, on January 1st. In November 2000 the European Council made clear that countries wishing to join the EU should follow the prescribed path to the euro: waiting until they have joined the Union and then putting their national currency through two years of "purgatory" in Europe's second-generation exchange-rate mechanism, as well as fulfilling the other Maastricht criteria. The council also insisted that the exchange rate at which a country joins the euro should be decided jointly, not unilaterally. The use of currency boards—Bulgaria, Estonia and Lithuania have all tied their national currencies to the euro—is about as far as Brussels will let these countries go.

At a gathering at the London School of Economics this week there was no sign from commission or ECB officials that these views will be modified soon. That is despite strong arguments that a handful of EU candidates could benefit from early adoption of the euro. The official objections appear to be as much political as economic, and in particular an unwillingness to reopen the Maastricht treaty. The treaty's criteria that countries must meet before joining the euro include low inflation, low public debt and low budget deficits, as well as exchange-rate stability.

However, by adopting the euro early, a country forgoes the flexibility of altering its exchange rate to absorb economic shocks. This concern mysteriously falls away when a country has joined the club. But there are other arguments against early adoption of the euro. A country gives up the power to act as lender of last resort, for instance.

Still, some academics say with increasing force that too rigid an approach to adopting the euro may not suit small, open economies, such as those of Estonia, Lithuania or even Hungary. A speculative attack on their currencies might wipe out all the good of having to put on Maastricht's monetary and fiscal straitjacket. On the other hand, says Willem Buiter, chief economist of the European Bank for Reconstruction and Development, capital flows into these economies as they adopt the euro might increase inflationary pressures—pushing inflation above the Maastricht targets.

Poland has its own band of unilateralists. Recently, at a meeting in Warsaw held by the Centre for Social and Economic Research, Jacek Rostowski, a veteran adviser to successive Polish governments, pointed out that many EU candidates have stronger trade links with the euro area than do some current members. Anyway, both inflation and high interest rates—which have contributed to an economic slump—would come tumbling down, boosting growth and speeding up convergence.

Poland might be too big a contender for unilateral action. Estonia is keen, but says it will not move

without the European Commission's say-so. Croatia is a different matter. It is not even on the EU waiting list, yet nearly nine-tenths of its bank deposits are already in euros. Its *euro*5.5 billion ($5.1 billion) of foreign reserves could buy up the money supply twice over. Boris Vujcic, deputy governor of Croatia's central bank, says that, despite discouraging talks with Brussels, “the issue is not dead”.

The chances are slight that the commission will give ground. Economists there are not blind to the arguments, although they may still, on balance, favour a cautious stance. But what would happen to a non-candidate country that adopted the euro and then applied for EU membership? Would it be disqualified for being too fond of the euro? “If there is a government willing to call their bluff, things could get interesting,” says Mr Rostowski.

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J.P. Morgan Chase

Banking on the future

May 30th 2002 | NEW YORK
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A giant, merged bank in search of better times

WILLIAM HARRISON'S survival skills are not in doubt. He remains securely in charge at J.P. Morgan Chase, despite presiding over a miserable year. In a magisterial management reshuffle last week, he removed a man tipped as a likely successor, and entrenched some of his oldest allies. Over the past three years, Mr Harrison has put together America's second-largest bank by merging Chase Manhattan with J.P. Morgan, Robert Fleming, the Beacon Group and Hambrecht & Quist, spending over $45 billion at top-of-the-market prices.

Critics point to a stream of high-profile departures: the latest, at the end of last month, was Geoff Boisi, co-head of investment banking. (His consolation prize: around $100m that Chase paid him for his share in the Beacon Group.) Morgan argues that departures have been modest. Of 600 employees identified as valuable at the time of the deal, only one-tenth have left—with three times as many coming from J.P. Morgan as from Chase.

Recently, Morgan has seemed to star in every debacle, from Enron's bankruptcy to Argentina's default. It is embroiled in litigation over a $1 billion surety bond which the bank bought as protection against Enron losses; the insurers reckon they were misled. There is also a risk of losses from other Enron-related lawsuits.

Morgan could have done worse. Even if the surety case is lost, the bank will still have produced a profit last year, of several hundred million dollars—admittedly far short of the $7.5 billion earned in 1999. Its commercial bank dominates syndicated lending in America. Return on equity for products tied to custody, clearing, cash management and the like exceeds 22%. Traditional retail banking is almost as lucrative. And the merger of J.P. Morgan and Chase Manhattan has helped derivatives—J.P. Morgan's strong suit—to produce a third of investment-banking revenues.

Morgan blames its lousy results on the environment, not on its own actions, and says its mergers cannot be judged during a financial downturn. Results last year were hurt by three, singular factors: a $1.8 billion loss in its venture-capital portfolio, a doubling of credit losses thanks to America's recession, and a $3 billion fall in revenues from investment banking. If markets at least stabilise, the bank's profits could rise by a few billion dollars. J.P. Morgan Chase considers its pain to be less than that felt by purer investment banks such as Goldman Sachs, Merrill Lynch, and Morgan Stanley, which depend more on strong equity markets and a steady flow of mergers-and-acquisitions activity.

Meantime, Mr Harrison busily teaches “leadership” to his staff. He spends two-and-a-half days each month with groups of 100 employees, who get to play ping-pong with the boss and discuss what they would do if made chief executive. Such “soft” issues will determine Morgan's fate, says Mr Harrison, and it was in this area that Mr Boisi fell short. Recently, the man known as “Darth Vader” publicly criticised the low productivity of Morgan's bankers compared with those at Goldman. Mr Harrison seems to have decided that friendly fire was something he and his colleagues would do without.

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Gold

Bugbears

May 30th 2002
From The Economist print edition

A sucker's rally?

GOLD bugs rejoice. The patience of those who stand by gold through thick and thin has been rewarded recently with a rising price. Gold has now risen to near its most recent peak of $330 in 1999, when central banks announced a moratorium on new sales of their bullion stocks, though the price then fell back to earth again. The current rally is especially surprising, since gold barely moved after September 11th, when it might have been expected to rise. Trot out some new suspects: a weak dollar, tension in Israel, India and Pakistan, and the desire of Japanese savers for a safe haven.

Gold's new strength has even made bulls of some ex-bears. One of these, Andrew Smith of Mitsui Global Precious Metals, who expects the price to hit $355 an ounce by December, has turned bullish for none of the usual reasons. He ascribes gold's present good fortune to a broad shift out of American shares and bonds—because of an Enron-induced malaise—rather than to any revival in gold's role as the ultimate store of value. Gold's rise merely follows that of other commodities, keeping pace with platinum and silver, but with none of nickel's panache. Gold has, in effect, become just another form of alternative investment, like property, hedge funds or art.

Some bulls, though, take heart from a decline of hedging by gold companies. Such companies chose to protect the price of their future gold production by forward sales or by fancy financial options. These tactics were weighing prices down, it is argued. Nowadays, low lending rates have made the forward price less attractive. Companies that do not hedge have taken over some that did: for example, Newmont's buyout of Normandy. And a new push for accounting transparency has made many wary of the complex derivatives used by some hedgers.

Yet declining amounts of hedging may not be enough to keep the gold price up. The world's central banks hold some 30,000 tonnes of gold in their vaults. Mr Smith notes that AngloGold is trimming its hedging only at the same pace that the Swiss National Bank, owners of a massive hoard, is selling. Who will prevail in such a contest? “Place your bets,” he says.

Indeed, the long-term outlook for gold might mirror the fate of silver. A century ago, central banks hoarded silver as they do gold today, and it had a similar status befitting its role as a monetary metal. But now that central banks no longer keep silver reserves, the metal's purchasing power is back where it was at the beginning of the 19th century. By this measure, if central banks were to abandon gold, it would be worth around $68, says Mr Smith. Enjoy the run while it lasts.

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Rising protectionism

The dumping dilemma

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From The Economist print edition

Trade-remedy laws are damaging the world trade system

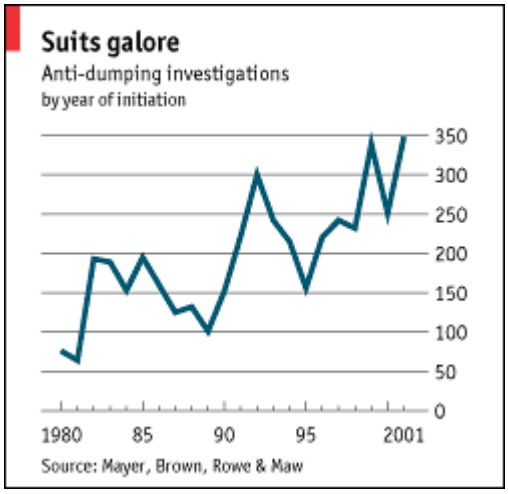
A PROMISING aspect of the global trade agenda that was launched at Doha last November was the agreement to revisit the rules about when countries may slap on temporary protection against imports. The World Trade Organisation allows several types of protection: safeguards against import surges, countervailing duties against subsidised goods, and duties against foreign products deemed to have been dumped on local markets.

These rules have long been misused as a cover for protectionism. Before Doha, America, in particular, was not keen to revisit them. The administration's change of heart, therefore, was welcome progress. Yet since then, ever more examples show how so-called trade remedies are proliferating, with pernicious effects. The prospects for reform are fading.

The biggest blow has come from America's lawmakers. On May 23rd the Senate passed legislation under which congressmen agree to vote for or against any future trade deals, but not to amend them. It gives George Bush's administration “fast-track” authority to negotiate complex trade deals, such as the Doha round. However, in an egregious amendment, the Senate excluded any changes to America's trade-remedy laws from fast-track protection.

The White House threatens to veto any bill including this amendment. So it may be excised, or weakened, from the compromise legislation that must still be hammered out between the Senate and the House of Representatives. Yet the signal rings clear. America's lawmakers resent any negotiations on global trade-remedy rules that will weaken their ability to protect American firms against supposedly unfair competition.

These types of trade remedies increasingly threaten the global trading system. For a start, they are proliferating promiscuously. Work by a law firm, Mayer, Brown, Rowe & Maw, shows that they reached unprecedented levels last year: a record one for anti-dumping and safeguard investigations, and the second highest year for anti-subsidy investigations. Driven largely by America's actions in the steel industry, 53 safeguard investigations were initiated last year, up from five in 1996. Some 24 countries initiated 348 anti-dumping investigations, involving 139 different products. Anti-dumping cases have tripled since the 1980s (see chart).



Although rich countries, notably America and the European Union, have traditionally been the ardent users of anti-dumping duties, India now rivals them. It has initiated 170 anti-dumping investigations since 1999, one short of America's total. By contrast, it initiated a mere 15 investigations in the first half of the 1990s. Elsewhere, emerging economies are turning to anti-dumping protection: last year they accounted for 18 of the 24 countries that launched anti-dumping actions. Rich countries also are increasingly the targets of anti-dumping. According to Brink Lindsey at the Cato Institute, a think-tank, America became the world's third-largest target of anti-dumping actions in the last half of the 1990s, after China and Japan.

This proliferation is unlikely to abate. Most observers reckon that China, a new member of the WTO, will become a big user of anti-dumping actions, as well as being on the receiving end. The products targeted

by such actions are also likely to broaden. Until now, most anti-dumping actions have focused on steel and chemicals. Yet once the global quota system for textiles is removed in 2005, rich countries may resort to trade-remedy rules to protect themselves from increases in textile imports from poor countries. That is why many developing countries are keen to see trade-remedy laws reformed, even though they themselves increasingly use them.

More immediately, trade-remedy rules risk souring the environment for global trade. America's decision to impose steel safeguards has already unleashed safeguard actions in other countries, along with the threat of retaliation. Last week China became the latest country to announce its own provisional safeguards. Meanwhile, the list of complaints at the WTO about America's action on steel grows longer: besides the European Union, seven countries have now filed formal complaints. Although America claims it acted entirely within WTO rules, Europeans disagree—and point out that America has lost several safeguard disputes at the WTO.

Last month China also won its first-ever case in America against an anti-dumping decision. The EU and Japan have threatened retaliatory tariffs over steel as early as mid-June. The furore about America's steel safeguards is another argument for clearer global rules about trade remedies. The attitude of lawmakers in Washington suggests that it is going to be an uphill battle.

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Economics focus

A price worth paying?

May 30th 2002
From The Economist print edition

The rationale for immigration may be more complex than previously thought

IN EUROPE, immigrants are blamed for rising crime and for stealing jobs which would otherwise go to native workers. So it is to America that defenders of immigration turn for ammunition. There, opposition to immigration is more muted. Immigration is widely perceived to bring many benefits, and not just in the form of people willing to do the dirtiest jobs that natives no longer want to do. They also come in the form of entrepreneurialism and innovation: imagine Silicon Valley without immigrants. Certainly, immigration entails some costs, the perceived view goes. Immigrants take some jobs that locals could otherwise have had. Yet on balance, the effect is positive, if not always easily measurable.

At first blush, the new findings of two professors at Columbia University, Donald Davis and David Weinstein, appear to challenge this view. Their analysis*, which relates uniquely to America, claims that immigration into the United States costs native workers around $72 billion a year, equivalent to nearly 1% of GDP. That is a much bigger figure than economists previously reckoned. As it happens, it is about the same scale of losses which America makes from pursuing protectionist trade policies.

The starting point for the new analysis is America's highly productive economy. Thanks in large part to its technological lead, the United States attracts flows not just of unskilled labour, but of skilled labour and capital too: all kinds of workers and capital flow to the world's biggest economy.

Using census data, Mr Davis and Mr Weinstein calculate that 11.7% of the American labour force was born abroad. This is a high proportion. It reflects a large rise in immigration in recent years—up from about 250,000 people a year in the 1950s to 1m a year now. Immigrants have a higher participation rate in the workforce than do native workers, which also helps boost their proportion of the labour force. And they account for an increasing share of population growth. As for their level of education, other survey data suggest that, of those workers who emigrate to America, the proportion with college degrees is, at 29%, only slightly less than that among native workers, at 32%. At the bottom of the labour pile, however, the proportion of immigrants with only the scantiest education is much higher than among indigenous workers.

The enormous capital flows which America has recently enjoyed have also had a big cumulative impact. For the past two decades, foreign capital flows have accounted in any one year for 5-21% of gross capital formation. Using previous work as the basis for their calculations, the authors conclude that in 1998—the latest year for which they have run the numbers—the foreign-financed capital stock accounted for 11.8% of the total. That is almost exactly the same proportion as the foreign-born share of the labour force, which, say Messrs Davis and Weinstein, reinforces the view that all factor inflows, capital and labour, should be looked at together. Hitherto, they have been studied largely in isolation.

It is not hard to see that such big factor inflows will increase America's output of goods. But one consequence of this is to lead to the conclusion that native American workers pay a cost. For as the production of American goods rises, so their price on world markets—that is, America's terms of trade—will tend to fall. In 1998, the authors calculate that the deterioration in the terms of trade was worth 0.7% of GDP, or a little over $58 billion.

The flows of labour and capital into America also lead to a lower output in the rest of the world than would otherwise have been the case. Foreign output therefore becomes scarcer in relation to American output—and so pushes American relative prices (or America's terms of trade) down further. That takes the loss to the terms of trade up to 0.8% of GDP.

When the authors refine their calculations still further, by making an adjustment to take account of the

different skills composition of immigrant labour (something that, in theory at least, could have improved America's terms of trade) the total losses to the terms of trade rise again, to 0.9% of GDP, or $80 billion. And nine-tenths of these losses, or $72 billion, would, they calculate, be carried by American-born workers.

On balance, benefits still

Opponents of immigration everywhere will seize on the new calculations with glee. Yet the authors urge caution. For a start, their work applies specifically to America, not to every country with a high rate of immigration. What is more, even in the American case, the findings do not lead to the conclusion that immigration is bad. There may be costs for native workers in America, yet the gains to immigrant workers far outweigh them. World income is higher as a result of the immigration process: it is on the distribution of benefits that Messrs Davis and Weinstein have thrown new light.

The authors leave open the possibility that immigrants may bring with them important benefits not reflected in their analysis. They propose more work to discover what these might be. At bottom, the authors make the case for a new analytical framework.

That one is needed is a sad reflection on much of modern economic research. Too often, for instance, economists preoccupied with labour flows have little (if anything) to do with international-trade theorists—a vital omission. The authors' call for economists in different fields to communicate more effectively—even, they might have said, to show some interest in what other researchers are working on—is surely right.

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*"Technological superiority and the losses from migration", by Donald Davis and David Weinstein. Columbia University Department of Economics Discussion Paper 0102-60, May 2002.

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Correction

May 30th 2002
From The Economist print edition

In our issue of May 11th we said the Chicago Board Options Exchange was owned by the Chicago Board of Trade. In fact, the two exchanges are separate, independent entities. Our apologies.

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About sponsorship

Mars

Ice storm

May 30th 2002
From The Economist print edition

AP

The latest data suggest that there is a lot of frozen water on Mars

Get article background

IN THE popular imagination (and also, it must be said, in the overheated imaginations of many scientists), the words “Mars” and “water” appearing in the same sentence lead inexorably to the presence of a third word: “life”. So, no matter that the water in question is frozen, and that the evidence for its existence is indirect, this week's much-trailed announcement that there may be ice under the surface of Mars has got a lot of people in a tizzy.

The reader could be forgiven for just a shade of cynicism. Ice is not unusual in the solar system. Europa, one of the moons of Jupiter, is entirely covered with the stuff. Indeed, work published last week suggests that its icy shell is about 20km thick—far deeper than the Antarctic ice-cap on earth. Nor has there been, for many years, any doubt that there is ice on Mars. Its own polar caps were first observed in 1666. Their discovery, together with that of their seasonal waxing and waning (confirmed by modern observations), and a network of apparently artificial channels to distribute the meltwaters (observed in the late 19th century, but subsequently shown to be imaginary), led to the idea that Mars was populated by an advanced but dying civilisation. That, in turn, led H.G. Wells to write “The War of the Worlds”, firmly implanting the image of sinister extra-terrestrials in the popular imagination.

For NASA, America's space agency, the discovery is doubly propitious. By stoking the “alien life” debate, it keeps attention on the agency's existing, unmanned exploration programme. And by offering the prospect of a ready supply of drinking water, it adds momentum to NASA's more grandiose ideas of a manned programme.

Gamma-plus

The evidence for the ice, which has been supplied by NASA's *Mars Odyssey* spacecraft, now in orbit around the planet, is published in this week's *Science*. Three papers, written by a total of 38 researchers from five countries, have been rushed into print. They are based on data collected between mid-March and mid-April. Such a hasty turnaround in the normally leisurely world of science publishing (papers generally languish many months between submission and publication) shows both the excitement of the publishers and the clout of NASA.

The method for detecting sub-surface ice on a planet from orbit around it is, as might be imagined, quite complicated. It starts with cosmic rays. These are atomic nuclei, emitted from such things as supernova explosions, that whip through space at enormous speed. When a cosmic ray collides with one of the atomic nuclei in a planet's surface, the result is a flurry of subatomic particles, particularly neutrons. These are then scattered around by other nuclei in the rocks, giving up energy that is eventually released in the form of gamma rays. Some of the scattered neutrons also leak back into space.

A craft in orbit can detect these neutrons and gamma rays if it is equipped with suitable spectrometers, and if the atmosphere is thin enough to allow them passage. *Mars Odyssey* is so equipped, and Mars's atmosphere is certainly thin. The precise energies of the gamma rays and scattered neutrons depend on the composition of the rock they came from. Individual protons (the nuclei of hydrogen atoms) are particularly effective at slowing neutrons down, so chemicals containing hydrogen show up well.

Since rock-forming minerals themselves do not contain much hydrogen, and hydrogen gas does not hang around to be detected, by far the likeliest source of hydrogen in a rock is water or (depending on the temperature) ice. And that is what the researchers think they have found.

Their excitement is not so much over the presence of ice as over its ubiquity and quantity. There is abundant geological evidence that Mars once had a lot of water flowing on its surface. There are dry river channels, layers of what look like sedimentary rocks, and something that appears, in the view of many geologists, to be an ocean basin. The question, therefore, is where did the water go?

One possibility is that it evaporated into space. Many researchers hoped, however, that some was frozen underground. This week's papers suggest that there may be quite a bit there. Mars is covered with crushed rock known as regolith. Below a relatively dry top, at least several metres depth of this regolith across much of the planet's surface seems to be composed of 20-35% ice. That is as deep as the spectrometers can see. But other measurements suggest that the regolith could be as much as 1km thick, so it is possible that the ice stretches this far down as well. Not as deep as on Europa, maybe; but not bad.

What all this has to do with the “L” word is more dubious. Based on the only known example, earth, liquid water seems to be necessary for life. But it is certainly not sufficient. Fortunately for NASA, science thrives on such uncertainties. On the other hand, it is absolutely certain that you have not heard the end of this story, whether you want to have or not.

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Gamma-ray bursts

Big bangs

May 30th 2002 | CAMBRIDGE, MASSACHUSETTS
From The Economist print edition

The causes of the universe's largest explosions are being revealed

LIKE many doctors, Shri Kulkarni and Kris Stanek carry pagers to alert them to emergencies. But they are not physicians; they are astronomers. When their pagers ring, there has been a crisis somewhere in the universe—a cataclysmic explosion with the power of ten thousand trillion suns. Gamma rays provide more than just information about Mars (see article). They also speak of these events, which are known as gamma-ray bursts, that occur in the farthest reaches of space. Whenever a gamma-ray burst happens, Dr Stanek and Dr Kulkarni rush to contact whichever of their colleagues are using large telescopes at the time. Their goal is to commandeer those telescopes quickly enough to study the fading light from the fireball that follows the gamma rays, in order to solve the long-standing mystery of what causes the explosions.

That mystery was the subject of a recent conference entitled “The Brightest Explosions in the Universe”, held in Cambridge, Massachusetts. And, as the conference heard, by studying a burst that took place last November, teams led by Dr Kulkarni, of the California Institute of Technology, and Dr Stanek, of the Harvard-Smithsonian Centre for Astrophysics, in Cambridge, claim to have found the trigger for some of them.

Gamma rays are electromagnetic radiation, rather like light and radio waves, but with far more energy. If your eyes were sensitive to them, then once every few days you would be dazzled by a burst of radiation from a random spot in the sky. Such events would outshine the sun for a few seconds and then vanish. These bursts were first detected in the late 1960s, by American satellites that had been designed to look for Soviet nuclear-test explosions. Since then, despite the publication of more than 5,000 scientific papers on the topic (about as many as the number of gamma-ray bursts that have been recorded), they have remained baffling.

There have been several theories. Colliding neutron stars was a popular one for a while, but fell out of favour. Supernovae was another. But standard supernovae (stellar explosions caused by the collapse of a massive star that has run out of fuel) would not be powerful enough to generate these gamma rays. That has led to the “hypernova” theory—that gamma-ray bursts are caused by the collapse of stars far more massive than those involved in standard supernovae. And that is what Dr Stanek and Dr Kulkarni think they have, independently, demonstrated.

After the afterglow

If the hypernova theory is correct, and you wait a few weeks for the afterglow from a gamma-ray burst to disappear, you should see the fading, longer-lived ember of the underlying star. In 1998 a stellar explosion did happen after a gamma-ray burst went off in the same part of the sky—but the direction of the gamma rays could not be pinned down precisely enough to prove that they came from the same galaxy as the explosion. At the meeting, astronomers argued about whether it was a real association or a freak coincidence.

Then Josh Bloom, a graduate student in Dr Kulkarni's group, presented the new evidence. A few weeks after a burst last November, from a particularly close galaxy, his team directed the Hubble Space Telescope to monitor the galaxy. When the afterglow had faded, they observed a tell-tale rise and fall in visible light that is characteristic of a supernova. Meanwhile the team led by Dr Stanek and Peter Garnavich, a researcher at the University of Notre Dame, in Indiana, came to the same conclusion from an independent analysis of the same data.

By linking gamma-ray bursts to the deaths of massive stars, these researchers have gone a long way towards solving the mystery. They may also have opened up a new avenue for those who want to study the very first stars—those that condensed out of the primordial cosmic gas, some 12 billion years ago.

No telescope is powerful enough to spot the light from a star 12 billion light-years away. But those ancient stars may be responsible for some of the observed gamma-ray bursts. According to the calculations of Abraham Loeb, one of Dr Stanek's colleagues at the Harvard-Smithsonian, extremely heavy stars were much more common early in the universe's history. If these heavyweights produced gamma-ray bursts when they expired, then by studying the bursts it should be possible to learn when and where the first stars existed.

Before getting too excited by that prospect, however, astronomers want to be certain about the hypernova theory. To prove that the event Dr Bloom described was at least a supernova, if not a hypernova, it would help to find evidence of chemical elements such as iron and silicon in the spectrum of its light. Typically, supernovae produce those elements. Other scientists claim to have done this, but their claims are disputed.

Besides which, there are at least two types of burst, differing in duration. Last November's was one of the lengthy ones. None of the short bursts has been studied in such detail. Those who are fond of merging neutron stars are holding out for this explanation for the short bursts.

It will be some time before the matter is settled. The ageing gamma-ray satellite BeppoSAX, which has provided much of the data, was switched off on 30th April. Its successor, HETE-2, has suffered from technical glitches. This means the rate of burst detection will be low for the next few years—a pity for astronomy, although the astronomers themselves might appreciate a little silence from their pagers.

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Power napping

Siesta time

May 30th 2002
From The Economist print edition

An hour's sleep in the middle of the day can work wonders

FINALLY, vindication for power nappers. Far from being lazy louts, siesta-takers are actually doing their bit for the firm. According to Sara Mednick and her colleagues at Harvard, just 60 minutes of shut-eye in the middle of the day can make you perform like the fresh daisy you were first thing in the morning. But it has to be *bona fide* sleep; a mere rest, they found, has no effect.

Dr Mednick, whose results have just been published in *Nature Neuroscience*, wanted to know what effect power napping would have on people's visual perception. She asked 30 student volunteers to come into her laboratory. Four times on the same day, at 9am, noon, 4pm and 7pm, they were required to stare at a computer screen for an hour. Their task was to pick out a vertical or horizontal bar from a striped background—an established test of visual perceptiveness. The more quickly they picked out the bar, the more acute their perception.

All the volunteers had slept well in the days before the test, and had been warned off alcohol. During the test day, nicotine addicts were allowed to indulge their habits, but everyone had to remain uncaffeinated. Despite this cosseting, the performance of the ten volunteers who went straight through the day without a nap deteriorated rapidly. Their best scores were first thing in the morning, and it was downhill from there on. By the last session, they were taking 52% longer, on average, to identify the orientation of the bar than they had in the first.

However, another ten of the volunteers were given the opportunity to nap at 2pm for 30 minutes, while the remaining ten were allowed a 60-minute snooze. The short nappers did not get any worse in their afternoon test sessions. The long nappers actually got better—they performed just as well as they had first thing.

To test whether a rest, rather than a nap, would do the trick, nine more volunteers were asked in. But to no avail: their abilities declined with each session. Nor did motivation seem to be a factor. Yet another set of volunteers, after a poor showing in the second session, was told they had not done very well, but that they could earn a further $25 if they could do as well in the afternoon as they had that morning. The poor students' eyes lit up, according to Dr Mednick, but not one, alas, was able to stop the decay.

The upshot is another piece of evidence that humans, like many mammals which have evolved in tropical climes, are adapted not to go out in the mid-day sun. They are, rather, crepuscular—that is, they are most active in the morning and the evening. The protestant work-ethic that drives those now living in colder climates to work throughout the day may actually be counter-productive. At least, that is what you should tell your boss when asking for a couch to be installed in the office.

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Drug testing

Cheers, mate!

May 30th 2002
From The Economist print edition

A smart beermat may help to stop drug-facilitated rapes

ON AN average evening, malicious spiking of drinks in Britain's bars and pubs is believed to lead to three “drug rapes”. The prime suspect is flunitrazepam, a benzodiazepine known colloquially as “roofies” that packs a punch ten times greater than Valium. But other drugs, such as ketamines and GHB, are also used. The victims (some 12% of whom are male) become drowsy and weak-willed, and then black out, waking up with no memory of the event. SSD, a small biotechnology company based in Derby, is about to launch a kit to test for flunitrazepam and other drug-rape culprits in drinks. In a stroke of marketing genius, the company has put its test on the surface of a beermat.

The test is an immunoassay. It involves antibodies on a surface reacting with the molecule being tested for, and so activating a dye. Several tests can be printed on a beermat, so the same mat can be used to test several drinks or, alternatively, to test for several drugs. The firm has teamed up with a large beermat maker. The first batch of this lab-on-a-mat will appear in pubs in June.

SSD launched a swizzle-stick version of the test last year, but the beermat format has advantages. First, you don't need to remember to bring your kit with you to the pub. Second, beermats are “real estate” for advertising, and SSD has found several sponsors keen to be associated with its test. This helps to offset increased production costs, which even for the simplest test more than double the 2p (3 cent) price of a normal beermat.

The test is easy enough. A cautious drinker just dips a finger in the drink and touches one of the test areas on the mat. Positive and negative results produce different colours, so used test areas can be distinguished from fresh ones.

Trials reveal only one flaw in the test: shots of neat spirits can mask the drugs, although in such small volumes of drink, drugs typically leave telltale powder remains. Yet, as SSD's spokesman Jim Campbell points out, the biggest impact of the beermat test may not be its chemical sensitivity, but rather its novelty and visibility. This will help raise awareness of drug rape—and avoid many a slip 'twixt cup and lip.

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Political Islam

Wave of the past

May 30th 2002
From The Economist print edition

Corbis

Islam's radical politicisation had peaked long before September 11th, a French expert on the Middle East argues provocatively in a landmark book

SO DEVASTATING and unexpected was the September 11th attack on America that many people concluded that Islamic extremism had become a threat of monstrous and mushrooming proportions. That idea is deftly countered in this brilliant and provocative book by a leading French specialist on modern Islam.

Gilles Kepel argues that the attack can only be understood in the light of the rise and fall of political Islam, or Islamism as he calls it, over the past quarter-century. He suggests that, from its origins in the 1970s, the phenomenon had three key constituencies. First, the businessmen and professional people who had lost out in the post-colonial division of spoils; these Mr Kepel describes as the pious middle class. Second, a new and volatile group, the disenchanted urban young. And, third, the Islamist intellectuals who became the voice of the movement.

Islamism achieved its first and most spectacular triumph in Iran, Mr Kepel argues, because the father of the Islamic revolution, Ayatollah Khomeini, had an uncanny ability to build and maintain a broad base of support—including the young and the poor, whom he dubbed the disinherited, and the tradition-minded merchants of the bazaar. Nowhere else was this trick repeated with such success.

Jihad: The Trail of Political Islam
By Gilles Kepel

Harvard University Press; 416 pages; $29.95.
I.B. Tauris; £25

Buy it at
Amazon.com
Amazon.co.uk

In the Arab world, in Turkey and elsewhere, these three groups came together in an alliance of convenience to oppose corrupt and incompetent secular regimes. Yet because at root they had so few common interests, they were soon pulling apart again. The aim of the angry urban young was to destroy a system they believed rotten to the core; that of Islamist businessmen, doctors and engineers to take the places of the secular elite—to paint the system green, as Mr Kepel puts it.

In countries where Islamism turned violent, as in Egypt and Algeria, radical groups found ready recruits among the alienated urban young. In response to this youthful fury, many middle-class Muslims took fright and their early sense of solidarity with the militants withered.

In seeking to co-opt Islamism, cautious, pro-western Saudi princes began in the 1980s to favour the

middle-class variety, exemplified by the Muslim Brotherhood, over the revolutionary brand backed by Iran. They poured petrodollars into the anti-Soviet *jihad* in Afghanistan, matching America dollar for dollar, in the belief that this would work to their advantage in the contest for Islamic leadership with a radicalised Iran. But while the *jihad* produced an ignominious Soviet defeat, it spawned also Osama bin Laden and al-Qaeda.

In the post-Afghanistan phase, the most radical wing of the Islamist movement spun out of control. Some of its youthful warriors left Afghanistan to fight in Algeria's brutal civil war. Others tried and failed to hijack the Muslim cause in Bosnia, a country they did not understand. Mr bin Laden and his men, meanwhile, based first in Sudan and then in Afghanistan, staged a series of ever more daring and murderous operations against American targets—in Kenya, Tanzania and Yemen—culminating in the September attacks in America itself.

Mr Kepel believes that, well before then, Islamism was virtually everywhere on the defensive. What finished it off as a mass movement with a future, more even than often savage government repression, was the splitting apart from each other of its core constituencies. Violence and terror alienated the pious middle class, making it easier for governments to divide and rule. Mr Kepel's conclusion from all this is that, far from being a sign of strength and growing menace from radical Islamism, the attacks on New York and Washington were a desperate symbol of its “isolation, fragmentation and decline”.

For all the brilliance of this analysis, is Mr Kepel not underplaying the threat? Does not violence itself mobilise? In fact, he is not saying that danger has past, only that, politically speaking, radical Islamism has peaked. He expects more terror in the name of Islam, especially given Muslim anger over Palestine. But the limits of the Islamists are clear. They are licking their wounds. The more thoughtful among them—including the reformists in Iran and the more modern-minded Muslim Brothers (and sisters) in Egypt—are trying to find a way out of the impasse into which violent radicalism has pushed them.

Mr Kepel's book, an updated version of one published in French two years ago, is not without flaws. The general reader may find it too long. The translation, although usually fluent, contains oddities: “Wahhabites” is not Anglo-Saxon usage; “ulemas” is an ungainly double plural. But these are small points. No one else has attempted so bold an overview of the Islamist phenomenon, not even Mr Kepel's compatriot Olivier Roy, whose shorter book, “The Failure of Political Islam” (Harvard), broke new ground on its publication in 1994. Of all the books on the subject since September 11th, this is one of the most challenging and the most illuminating.

Jihad: The Trail of Political Islam.
By Gilles Kepel.
Harvard University Press; 416 pages; $29.95.
I.B. Tauris; £25

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About sponsorship

Film festivals

High tech, high kitsch

May 30th 2002 | CANNES
From The Economist print edition

Good films, pity about the jury

SINCE before time began, every film shown at Cannes has been preceded by a sequence of 22 steps emerging from the sea and climbing up towards an azure sky. This year the yellow steps were smartened up—digitally, of course—with the addition of a bright red carpet. The films have also reinvented themselves. There were nine digital screenings, and among them some remarkable digital films.

Abbas Kiarostami's “Ten” is an intense, close-up record of conversations shot with a small digital video camera on the dashboard of a moving car. A young boy confronts his divorced mother head-on, then she talks with other women about sex, oppression, loss and freedom. Mr Kiarostami's lonely virtuosity was easily matched by Alexander Sokurov's feat of shooting “ Russian Ark”—a swirling essay on history as portrayed in the Hermitage museum in St Petersburg—in a single, uncut 95-minute take. No less impressive was the digitally restored original of Jacques Tati's great 1967 comedy, “Playtime”, a nightmarish vision of Paris's office-bound future that seems, to many, to have come true.

Not all digital wizardry, though, is so masterful. “Spirit”, an animated western “Black Beauty” story boasted some wonderful swooping camerawork, but the woefully Bambi-like smirks were hard on the eye. With no need to save footage, digital footage can also tempt directors into longueurs that are all too, well, long. Most notable of these was Jia Zhang Ke's “Unknown Pleasures”, 113 leaden minutes about two north Chinese layabouts whose own boredom with life quickly infected the audience.

Traditional non-digital cinema, meanwhile, offered Cannes some brighter, if odder, moments. Woody Allen, in person for once, opened the festival with “Hollywood Ending”, a near-the-knuckle comedy about a fading director going blind when he attempts a comeback. Jack Nicholson, in Alexander Payne's “About Schmidt”, gave an acting masterclass as a newly retired executive whose world collapses when his wife dies and his daughter marries a klutz. Claude Lelouch's “And Now, Ladies & Gentlemen”, turned Jeremy Irons into a Raffles-like but repentant jewel thief. And Aki Kaurismaki, in the cheerful mood of his 1996 film, “Drifting Clouds”, won two prizes (Grand Prix and Best Actress) for “The Man Without a Past”, about an amnesiac surviving near-death and destitution, helped by the Salvation Army.

Many felt that this fable should have won the Golden Palm. But the jury, led by David Lynch, persisted in giving good films minor awards. It gave the special jury prize to “Divine Intervention”, a witty blend of Tatiesque comedy, ninja high jinks and frustrated love on the West Bank by a Palestinian director-cum-film-star, Elia Suleiman. Ken Loach, master of improvisation, actually won the screenplay award for Paul Laverty's script of his gritty Glaswegian film, “Sweet Sixteen”. Equally perverse was the award of best actor to Olivier Gourmet, whose chief feature in the Dardennes brothers' touching but slight new film, “The Son”, was the back of his head in claustrophobic close-up. And a 66-year-old South Korean director, Im Kwon-Taek, whose ravishing “Chihwaseon” portraying a 19th-century painter, had to share the best-director prize with Paul Thomas Anderson for “Punch-Drunk Love”, a whimsical trifle with Adam Sandler, whose two good scenes are over in the first five minutes.

As so often in Cannes, the scandal was in the jury room, not onscreen, despite Gaspar Noé's notoriously prolonged rape scene in “Irréversible”. Few could explain how Roman Polanski's “The Pianist” won the Golden Palm. Fine music, and brilliant decors by Allan Starski of “Schindler's List” fame, could have made something of the story of the life of Wladyslaw Szpilman, a concert pianist who survived the Warsaw ghetto with the help of a German officer. Instead, it was manipulative and overblown. After months of manual labour, our hero lands in the attic of a bombed-out Gestapo building. Finding a grand piano—still tuned at concert pitch—he begins to play as if he had been practising every day instead of breaking his hands on bricks. Swell up the music track. Digital wizardry indeed.

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About sponsorship

Film making

Funny habits

May 30th 2002
From The Economist print edition

HOW do great directors make movies? Is there a grammar of cinema, a set of rules, which leads to success? Laurent Tirard interviewed 20 top directors for a French film magazine, *Studio*. A grammar does exist, he found, but anyone with something to say has to turn it to their own vision. As Martin Scorsese puts it, film grammar is up for grabs.

Emir Kusturica frames his shots with an eye to geometry, the ideal being a circle. Jean-Pierre Jeunet has a mania for his characters entering the frame from below, like a jack-in-the-box: the character's arrival, he feels, becoming more dramatic. Bernardo Bertolucci and David Cronenberg never use zoom lenses, preferring to move the camera itself—Mr Cronenberg to bring the audience physically into the film's space; Mr Bertolucci to create a sensual relationship between the camera and the scene.

Good directors know what they want. Sydney Pollack is interested in human relationships. He works with the actors first, then calls in the crew. Wong Kar Wai begins with the frame, then brings in the actors. Takeshi Kitano strives for a succession of perfect images and rarely covers with a second, back-up camera. The editing room is his last resort. John Woo, on the other hand, uses up to 15 cameras to shoot his action sequences. Oliver Stone spent two weeks shooting the assassination scene in “JFK”.

Flexibility, all the interviewees pointed out, is important. The Coen brothers storyboard their shots, show these to the actors then work out the blocking with the actors and director of photography. While Jean-Luc Godard makes a film to explore what he calls an “abstract feeling”, Lars Von Trier takes spontaneity to extremes with “Dogme 95”, a film manifesto calling for the elimination of artifice: no special effects or dramatic lighting.

The directors' idiosyncrasies shine through Mr Tirard's book without swamping the reader with too many points of view. The intricacies of film making are made less mysterious. Mr Godard may even be right. Want to make a movie? Pick up a camera.

Moviemaker Master Class: Private Lessons from the World's Foremost Directors.
By Laurent Tirard.
Faber and Faber; 224 pages; $15

Moviemaker Master Class: Private Lessons from the World's Foremost Directors
By Laurent Tirard

Faber and Faber; 224 pages; $15

Buy it at
Amazon.com

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About sponsorship

The science of everything

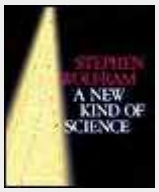
The emperor's new theory

May 30th 2002
From The Economist print edition

A self-published book is being touted as the greatest step since Newton. Is it?

EXTRAORDINARY claims demand extraordinary proof, and the claims made by Stephen Wolfram, a computer scientist, in his new book are extraordinary indeed. “A New Kind of Science” professes to offer an entirely new way of looking at the world. At its heart is the notion of modelling physical phenomena in terms of simple computer programs, rather than complicated mathematical equations. Mr Wolfram unashamedly compares the potential impact of his work to that of Sir Isaac Newton's “Principia Mathematica”, and suggests that his discoveries can answer long-standing puzzles in mathematics, physics, biology and philosophy, from the fundamental laws of nature to the question of free will. Can his book possibly live up to such claims?

A New Kind of Science
By Stephen Wolfram



Wolfram Media; 1197 pages; $44.95 and £40

Buy it at
Amazon.com
Amazon.co.uk

“A New Kind of Science” is an unusual work, quite apart from what it says. Mr Wolfram, a British-born prodigy who published his first scientific paper at 15, won a MacArthur genius grant at 21 and then made a fortune in the software business, exercised total control over the project. It is published by his own media company, making him author, editor and publisher. It is nearly 1,200 pages long and contains hundreds of intricate illustrations, generated by Mr Wolfram from his own software. It is the product of more than ten years' work, during which Mr Wolfram avoided the scientific community, lived as a recluse and ran his software company via occasional video-conference calls. Not surprisingly, the result is self-indulgent in places: Mr Wolfram lists every model of computer and programming language he has used since childhood, and estimates that while writing the book, he typed 100 million keystrokes and moved his computer mouse more than 100 miles.

None of which bodes well for the book's content. Yet publication has been anticipated in some quarters for years, and that message—that the universe is best understood through computing, rather than traditional mathematics—has struck a chord with the Internet crowd. “A New Kind of Science” quickly became an Amazon bestseller. Does it merit the hype?

Can doesn't mean must

Mr Wolfram's book grew out of his research into cellular automata. These are simple computational systems that can be rendered as rows of coloured squares on graph paper, and are governed by simple rules that specify how the colours of each row of squares depend on the colours of the previous row. The properties of cellular automata are easily explored using a computer, which can produce thousands of rows of output in the blink of an eye. It hardly sounds like the basis for a new science, but in 1984 Mr Wolfram came across one cellular automaton, known as Rule 30, that produced chaotic, unpredictable output despite the simple rules that govern its operation. This was Mr Wolfram's Eurekamoment: it suggested to him that complex systems in nature—be they weather systems, turbid fluid flow, a zebra's stripes or the human mind—might all be governed by small and simple sets of rules.

The first few chapters of his book explore this possibility in detail, using dozens of examples of cellular automata. The explanations are fascinating and wonderfully lucid. Mr Wolfram shows with countless examples how apparently simple systems can give rise to extraordinarily complex behaviour.

Having settled that beyond question, he then makes a vast speculative leap. Because complex behaviour is abundant in nature and because it can be produced by simple systems akin to cellular automata, that,

he asserts, is how all complex behaviour must be produced. *Et voilà*, he has found the secret of the universe: simple computation rules can yield structures that resemble trees, shells and snowflakes; that, Mr Wolfram tells us, is therefore how nature generates everything.

Mere equations, he observes, cannot capture such complexity, whereas simple computational rules can. To the obvious objection that systems that are superficially similar might have radically different structural features, he answers thatcellular automata can still be useful models, even if the underlying mechanisms of natural phenomena are totally different.

This reply is not convincing. In existing science, the equations of a good theory are taken to represent physical reality because they can be used to make predictions. Chaotic cellular automata cannot. No doubt Mr Wolfram would say it is unfair to judge his new science by the standards of the old. But allowing that would mean abandoning the Galileo test: science's explanatory power and authority stem from its ability to make testable predictions. Otherwise theory is nothing more than post-hoc speculation.

That said, one of the most impressive parts of the book is Mr Wolfram's guess that the universe might, in fact, be a giant cellular automaton at the subatomic level. His elaborate model cleverly accounts for physical phenomena such as causality, relativity, and the finite speed of light. Similarly, his demonstration that a cellular automaton known as Rule 110 can operate as a universal computer—the simplest possible computer, but one that can be usedto simulate an arbitrarily complexmachine—is a tour de force.

Yet these triumphs are undermined by Mr Wolfram's insistence on trying to use his computational approach to explain absolutely everything. Scientists in many fields, from quantum physics to cosmology, like to think that the secret of the universe lies in their particular fief. Recent books have suggested that multiple universes or quantum gravity can explain consciousness or free will. This kind of speculation is usually kept for the final chapter. Mr Wolfram's entire book is shot through with it. He sees the history of science as a prelude to his years at the keyboard, and the computer as powerful an instrument of discovery as the telescope or microscope. He also seems to want to take credit for complexity theory itself.

There's no short cut

One last act of daring is Mr Wolfram's principle of computational equivalence, by which he lumps together all complex phenomena as equally complex manifestations of the same underlying rules for cellular automata. All unpredictable processes, he argues, from water going down a plughole to human consciousness, are computationally equivalent. He notes that great scientific breakthroughs in the past have undermined humanity's belief that it is special. But that does not mean that every such theory is correct.

Had it been shorter and better focused, Mr Wolfram's book would have been more convincing. It feels as if he wrote it in a vacuum, and the hand of an editor is sorely missed. In fairness, these faults are more irritating than decisive. Newton believed all sorts of odd things. A book with an interesting new theory does not have to be right for it to be worth reading, and Mr Wolfram's book certainly is that. It will provoke debate and experiment. Parts of it might one day be integrated into tested physical theory. Despite Mr Wolfram's bold attempt at a short-cut, that is howscience of the old-fashioned kind works.

A New Kind of Science.
By Stephen Wolfram.
Wolfram Media; 1197 pages; $44.95 and £40

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About sponsorship

European bestsellers

What the world is reading

May 30th 2002
From The Economist print edition

Soldiers or Neanderthals? Europeans turn to both as a way of escaping reality

PRESIDENT BUSH may not have had a universally warm welcome on his recent swing through Europe, but readers there certainly love American books. Hardboiled detectives from Michael Connelly, idealistic lawyers from John Grisham, and just plain Americans traumatised by a supernatural conjured up by Stephen King are all ensconced on the French, Spanish, Italian and German bestselling fiction lists. War also plays well, with Javier Cercas's recounting of the last days of the Spanish civil war, “Soldados de Salamina”, Günter Grass's second-world-war shipwreck story—the only German book on the German list—and the Italian “L'ultima legione,” about Romulus Augustus's long battle with the barbarians.

Then there are barbarians of another stripe. According to *Publishers Weekly*, Jean Auel's Cro-Magnon epic has sold 34m copies and been translated into 28 languages since it was launched in 1980 with “Clan of the Cave Bear”. The fifth in the series, “The Shelters of Stone”, an Ice-Age tale of Neanderthal sex and violence, tops the French list and is climbing fast up Germany's and Italy's. Millions more sales are sure to follow.

Bestsellers

	FRENCH FICTION	GERMAN FICTION
1	**Les refuges de pierre** *by Jean M. Auel* Cro-Magnon cavewoman makes her comeback	**Im Krebsgang** *by Günter Grass* Coming to terms with Germany's past
2	**Toi que j'aimais tant** *by Mary Higgins Clark* Tracking down a sociopath	**Der Richter** *by John Grisham* Grisham's return to thriller form
3	**Le livre des illusions** *by Paul Auster* Baroque tragi-comic tale	**Ayla und der Stein des Feuers** *by Jean M. Auel* Cro-Magnon cavewoman makes her comeback
4	**La quatrième main** *by John Irving* TV reporter loses hand to lion	**Harry Potter und der Feuerkelch** *by J.K. Rowling* Harry Potter in wizard tournament
5	**Matin brun** *by Frank Pavloff* Against the cowardice of fascism	**Harry Potter und der Gefangene von Askaban** *by J.K. Rowling* Convict on the run after trainee wizard
6	**Je l'aimais** *by Anna Gavalda* Getting to know one's daughter-in-law	**Harry Potter und die Kammer des Schreckens** *by J.K. Rowling* More Harry and more wizardry
7	**Les 40èmes délirants** *by Raymond Devos* Zany tale with surrealistic poetry	**Harry Potter und der Stein der Weisen** *by J.K. Rowling* Harry starts wizard school
8	**La reine Liberté, Vol 3** *by Christian Jacq* Dramatised life of an Egyptian queen	**Der Alchimist** *by Paulo Coelho* Journey of enlightenment
9	**Wonderland Avenue** *by Michael Connelly* Detective Harry Bosch's latest inquiry	**Der Buick** *by Stephen King* The bad guy is a Buick Roadmaster
10	**Le lit d'Aliénor** *by Mireille Calmel* Love stories about Eleanor of Aquitaine	**Star Wars, Episode II** *by R.A. Salvatore* Official movie novelisation

	ITALIAN FICTION	SPANISH FICTION
1	**La convocazione** *by John Grisham* Grisham's return to thriller form	**Dos mujeres en Praga** *by Juan Jose Millas* Two women on the road
2	**Il momento è catartico** *by Flavio Oreglio* Poetry, monologues and aphorisms	**Los aires difíciles** *by Almudena Grandes* Two strangers from Madrid escape their pasts
3	**Quel che c'è nel mio cuore** *by Marcela Serrano* Among the Zapatistas in Mexico	**La citacion** *by John Grisham* Grisham's return to thriller form
4	**L'ultima legione** *by Valerio M. Manfredi* Romulus Augustus versus the barbarians	**Soldados de Salamina** *by Javier Cercas* Phalange ideologue during Spanish civil war
5	**Le correzioni** *by Jonathan Franzen* Oprah-defying literary sensation	**Los invitados al jardin** *by Antonio Gala* 23 short stories of love
6	**Ghiaccio nero** *by Michael Connelly* Los Angeles cop investigates designer drug	**La herencia del amor** *by Catherine Coulter* Duke marries for inheritance
7	**Focolari di pietra** *by Jean M. Auel* Cro-Magnon cavewoman makes her comeback	**Harry Potter y la camara secreta** *by J.K. Rowling* More Harry and more wizardry
8	**Jack l'uomo della Folla** *by Diego Cugia* Fugitive from Alcatraz	**El guitarrista** *by Luis Landero* Adolescent mechanic turns flamenco guitarist
9	**Harry Potter e il prigioniero de Azkaban** *by J.K. Rowling* Convict on the run after trainee wizard	**Los estados carenciales** *by Angela Vallvey* Caranciales residents' quest for happiness
10	**I giorni dell'abbandono** *by Elena Ferrante* Abandoned mother of two, with dog	**Harry Potter y la piedra filosofal** *by J.K. Rowling* Harry starts wizard school

Sources: *Livres Hebdo; Focus; La Repubblica; El Cultural* Descriptions by *The Economist*

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About sponsorship

Alec Campbell

May 30th 2002
From The Economist print edition

Alec William Campbell, a veteran of Gallipoli, died on May 16th, aged 103

IN THE first world war 324,000 Australians volunteered to fight overseas, an extraordinary number in a nation of fewer than 5m people. Of the 60,000 Australians who died in the war, 8,700 were lost in a few months during a hopeless attempt to capture Gallipoli, a small piece of territory in Turkey. In the words of a piece of doggerel at the time, “In five minutes flat, we were blown to hell/Nearly blew us right back to Australia.”

The story of Gallipoli and the Anzacs, the name given to members of the Australia New Zealand Army Corps, became a legend in Australia (and indeed in New Zealand, which lost 2,700 men). Nine Australians were awarded the Victoria Cross, Britain's highest military honour. Australians talk of the Anzac spirit, rather as the British of a certain age talk of the Dunkirk spirit (both refer to managed retreats that softened the sting of defeat). A lot of Australian homes are simply called Anzac. Each year the battle is commemorated on April 25th, the anniversary of the Anzacs' landing in Gallipoli in 1915, in what is now known as Anzac Cove. This year, as on many previous occasions, the main commemorative procession was led by Alec Campbell, who because of his age was allowed the comfort of riding in a car. When Mr Campbell died a few weeks later flags were flown at half mast throughout Australia. He was given a state funeral on May 24th and the prime minister, John Howard, cut short an official visit to China to be there.

Mr Campbell was uneasy at his growing fame as one by one newspapers reported the deaths of the few remaining Gallipoli survivors. One of the last was Roy Longmore, who died last year aged 107. The last survivor on the Turkish side, Adil Sahin, died in 1998. When it seemed likely that Mr Campbell was the only remaining witness of Gallipoli he was increasingly referred to in Australia as a “national treasure”.

An ordinary chap

Alec Campbell was not so sure about that. He said, correctly, that he was an ordinary chap, but he politely answered reporters' questions about his life. He was born into a farming family in Tasmania. Queen Victoria was still reigning. Australia had not yet seen a motor car. He worked on a cattle station, then as a carpenter, then as a civil servant. He gained an economics degree in his 50s, studying part-time. He taught himself to sail and took part in several big races in Australian waters. He was married twice and fathered nine children. It was a respectable life, although perhaps not an extraordinary one. Now, Mr Campbell, what about Gallipoli...?

The decision to land in Turkey was a consequence of the lack of success by Britain and its allies on the western front in France. Turkey, which had sided with Germany only reluctantly, was reckoned to be a soft target. Land forces, aided by the navy, would advance to Constantinople, and Turkey would surrender. The way would be open to supply Russia with much needed arms through the Dardanelles, the strip of water that separates Europe and Asia, and the Russians would march triumphantly to Berlin. What would now be called a multinational force of some 500,000 men was assembled from the far reaches of the British empire; and a disparate bunch they were, among them the Assyrian Jewish Refugee Mule Corps, believed to be the first Jewish unit to fight since 70AD, when the Romans attacked Jerusalem.

The Turks defended their territory well, killing 33,000 of the invasion force. The Anzacs were given a particularly tricky stretch of Gallipoli to attack. The beach where they landed was dominated by well-

fortified high ground. The Anzacs lost 2,000 men on the first day. Alec Campbell arrived at Gallipoli some time after the initial attack, when the Anzacs were barely holding on. He was only 16, was still not shaving, but insisted he was 18.

Older Aussies called him the Kid, and did their best to protect him. He was given the job of running water to the men in the front line. That was dangerous enough. Every day runners would be picked off by Turkish snipers. “They kept you on your toes,” he said. “To stick up your noddle was nearly always fatal.” Mr Campbell's tour of duty ended after two months when he fell ill with a fever and was invalided home. He was asked how many Turks he had killed. “None,” he replied, probably truthfully. But in later life, fed up with the question, he said “Dozens.”

A British government report conceded that the attack on Turkey had been “ill conceived”. In Australia the criticism was earthier, and if anything the bitterness that followed the massacre of its young men has grown over the years. If Australia ever decides to become a republic, the memory of Gallipoli may play a part. Mr Campbell voted for a republic in the referendum in 1999. But he was not by nature a propagandist. If he spoke of the folly of war, of the need for peace, of the idiocy of politicians, they were the casual views of an ordinary man. He was admired partly because he was so ordinary, an accidental hero.

He made a return visit to Gallipoli in later life and found a trench used by the Anzacs, now overgrown by wildflowers. He said, “It was a lovely place, you know, if conditions had been better...”

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Overview

May 30th 2002
From The Economist print edition

American consumers seem happy with their lot these days, but they are less optimistic about the future. The Conference Board's consumer-confidence index rose to 109.8 in May, up from a (downwardly) revised 108.5 in April. But the board's expectations index, which assesses consumers' six-month outlook, declined for a second month, to 109.4 in May from 109.6 in April.

America's first quarter GDP growth was revised down to an annual rate of 5.6% from an earlier estimate of 5.8%. Consumer and business spending was not as strong as originally estimated.

German business confidence soared in May, according to the Ifo index, a survey of 7,000 firms. The index rose to 91.5 from 90.5 in April. Businesses were even more optimistic about their future conditions than about their current circumstances. Consumer-price inflation in Germany fell to 1.2% in May, from 1.6% in the previous month, thanks mostly to big price jumps in May of last year.

The **euro area's** current-account deficit narrowed to $2.0 billion in March from $5.8 billion in February. **Spain's** economic output grew by 2.0% in the year to the first quarter. **France's** GDP grew by 0.4% in the first quarter, but by a relatively weak 0.3% in the year to the first quarter. Retail sales in **Italy** rose by 0.5% in the year to March.

In April, **Japan's** industrial production rose for the third month in row, this time by 0.2%. Nonetheless, it was worse than analysts' expectations of a 1.0% gain, and remains down by 6.1% over the 12 months to April.

Britain's first quarter GDP growth was revised down from 0.1% to nil, thanks to the first fall in financial-services output since 1992. Retail-sales volume grew by 1.7% in April, the fastest rate since January 2000. Eager shoppers have pushed up retail sales by 6.9% in the year to April.

Sweden's producer prices fell by 0.7% in the year to April.

Australia's trade surplus narrowed to $1 billion in the year to April, from $1.5 billion in the year to March.

Gold prices rose to $327 an ounce, a three-year high.

The **euro** reached a 14-month high against the **dollar** of $0.93.

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Output, demand and jobs

May 30th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 5.2	+ 4.1 Q4	+ 3.8	+ 3.9	+ 2.5 Q4	+ 5.0 Q1	6.3 Apr	6.7
Austria	– 0.7	– 0.4 Q4	+ 1.3	+ 2.7	– 3.1 Mar	+ 1.0 Feb	4.0 Mar	3.4
Belgium	+ 2.0	– 0.3 Q1	+ 1.4	+ 3.1	–10.8 Mar	+ 6.6 Feb	10.5 Apr*	10.2
Britain	nil	+ 1.0 Q1	+ 1.9	+ 2.9	– 5.9 Mar	+ 6.9 Apr	5.1 Mar†	5.1
Canada	+ 2.0	+ 0.9 Q4	+ 2.7	+ 3.5	– 0.8 Feb	+ 5.4 Mar	7.6 Apr	7.0
Denmark	+ 0.5	+ 0.4 Q4	+ 1.6	+ 2.5	nil Mar	+ 2.1 Feb	5.0 Mar	5.4
France	+ 1.4	+ 0.3 Q1	+ 1.5	+ 2.9	– 0.4 Mar	– 0.1 Mar	9.1 Mar	8.7
Germany	+ 0.7	– 1.2 Q1	+ 1.0	+ 2.6	– 3.2 Mar	– 4.5 Mar	9.6 Apr**	9.4
Italy	+ 0.6	+ 0.1 Q1	+ 1.4	+ 2.9	– 7.6 Mar	+ 0.5 Mar	9.0 Jan	9.8
Japan	– 4.8	– 1.9 Q4	– 1.0	+ 1.1	– 6.1 Apr	– 4.3 Mar	5.2 Mar	4.7
Netherlands	nil	nil Q1	+ 1.5	+ 3.0	– 2.0 Mar	+ 0.8 Feb	2.2 Apr§	2.0
Spain	+ 2.1	+ 2.0 Q1	+ 2.1	+ 3.3	– 9.3 Mar	na	12.9 Mar	13.1
Sweden	+ 1.4	+ 1.1 Q4	+ 1.8	+ 3.0	+ 1.6 Mar	+ 4.3 Mar	3.8 Apr*	3.7
Switzerland	+ 0.1	+ 0.4 Q4	+ 1.1	+ 2.3	– 1.0 Q4	+ 0.9 Mar	2.5 Apr*	1.7
United States	+ 5.6	+ 1.5 Q1	+ 2.8	+ 3.5	– 2.0 Apr	+ 5.7 Apr	6.0 Apr	4.5
Euro area	– 0.8	+ 0.7 Q4	+ 1.3	+ 2.9	– 2.9 Mar	+ 2.0 Mar	8.4 Mar	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 1.8	– 0.9 Q4	na	na	– 4.9 Mar	+ 1.8 Feb	10.4 Apr*	10.3
Greece	na	+ 3.7 Q4	na	na	– 2.0 Feb	+ 8.4 Jan	na	na
Iceland	na	+ 3.12001	na	na	+ 3.3 2001	na	2.6 Apr*	1.6
Ireland	na	nil Q4	na	na	+14.7 Mar	+ 0.1 Mar	4.2 Apr	3.6
Luxembourg	na	+ 3.52001	na	na	+ 2.4 Feb	+ 5.4 Dec	2.8 Mar	2.6
New Zealand	+ 2.6	+ 2.9 Q4	na	na	+ 3.5 Q4	+ 8.2 Q1	5.3 Q1	5.4
Norway	+ 1.0	+ 1.8 Q4	na	na	– 2.5 Mar	+ 3.9 Apr	3.7 Q1	3.7
Portugal	+ 1.8	+ 1.0 Q4	na	na	+ 2.3 Mar	– 0.4 Mar	4.4 Q1*	4.2

*Not seasonally adjusted. †Jan-Mar; claimant count rate 3.2% in Apr. §Feb-Apr. **EU harmonised rate 8.1% in Apr.

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Prices and wages

May 30th 2002
From The Economist print edition

% change at annual rate

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.9	Q1	+ 6.0	+ 2.5	+ 2.5	+ 0.5	Q1	+ 5.2	+ 4.3	Q1	+ 5.6
Austria	+ 1.8	Apr	+ 3.0	+ 1.7	+ 1.7	– 0.5	Apr	+ 2.9	+ 2.4	Apr	+ 2.6
Belgium	+ 1.8	Apr	+ 2.8	+ 1.9	+ 1.7	+ 1.4	Apr	+ 3.3	+ 3.1	Q1	+ 1.9
Britain	+ 1.5	Apr	+ 1.8	+ 2.1	+ 2.5	+ 0.2	Apr	+ 0.6	+ 2.9	Mar	+ 5.0
Canada	+ 1.7	Apr	+ 3.6	+ 1.5	+ 2.0	– 1.2	Mar	+ 2.4	+ 3.3	Feb	+ 0.3
Denmark	+ 2.4	Apr	+ 2.7	+ 2.1	+ 2.1	+ 0.3	Apr	+ 3.6	+ 4.1	Q4	+ 3.8
France	+ 2.0	Apr	+ 1.8	+ 1.6	+ 1.5	– 0.7	Mar	+ 2.9	+ 4.1	Q4	+ 5.0
Germany	+ 1.2	May	+ 3.5	+ 1.5	+ 1.4	– 0.5	Apr	+ 4.1	+ 2.4	Mar	+ 1.6
Italy	+ 2.4	Apr	+ 3.1	+ 2.0	+ 2.0	– 1.2	Apr	+ 4.3	+ 3.2	Mar	+ 2.0
Japan	– 1.2	Mar	– 0.7	– 1.0	– 0.6	– 0.7	Apr	+ 1.3	– 0.9	Mar	+ 0.6
Netherlands	+ 3.6	Apr	+ 4.9	+ 3.3	+ 2.5	– 1.8	Mar	+ 5.7	+ 3.1	Apr	+ 4.6
Spain	+ 3.6	Apr	+ 4.0	+ 2.5	+ 2.4	+ 0.8	Apr	+ 2.8	+ 3.7	Q4	na
Sweden	+ 2.5	Apr	+ 2.8	+ 2.4	+ 2.1	– 0.7	Apr	+ 3.3	+ 2.6	Feb	+ 2.8
Switzerland	+ 1.1	Apr	+ 1.2	+ 0.7	+ 1.1	– 1.5	Apr	+ 0.9	+ 2.5	2001	+ 1.3
United States	+ 1.6	Apr	+ 3.3	+ 1.5	+ 2.3	– 2.0	Apr	+ 3.7	+ 3.4	Apr	+ 4.3
Euro area	+ 2.4	Apr	+ 2.9	+ 1.9	+ 1.7	– 0.8	Mar	+ 4.2	+ 3.0	Q4	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Apr	+ 2.9	na	na	– 1.0	Apr	+ 2.9	+ 4.3	Q4	+ 5.0
Greece	+ 3.8	Apr	+ 3.5	na	na	+ 3.7	Mar	+ 4.3	na		na
Iceland	+ 5.9	May	+ 5.5	na	na	+ 7.4	May	+ 5.7	+ 8.0	Apr	+ 9.2
Ireland	+ 4.8	Apr	+ 5.6	na	na	+ 1.4	Mar	+ 3.1	+ 8.1	Q4	+ 6.4
Luxembourg	+ 2.1	Apr	+ 2.8	na	na	– 2.5	Feb	+ 4.5	+ 3.1	Feb	+ 4.8
New Zealand	+ 2.6	Q1	+ 3.1	na	na	+ 1.8	Q4	+10.7	+ 2.1	Q1	+ 1.8
Norway	+ 0.5	Apr	+ 3.8	na	na	– 4.7	Apr	+ 9.8	+ 4.5	Q4	+ 4.3
Portugal	+ 3.6	Apr	+ 4.5	na	na	– 1.5	Apr	+ 3.2	na		na

Text refers only to the first 16 countries listed

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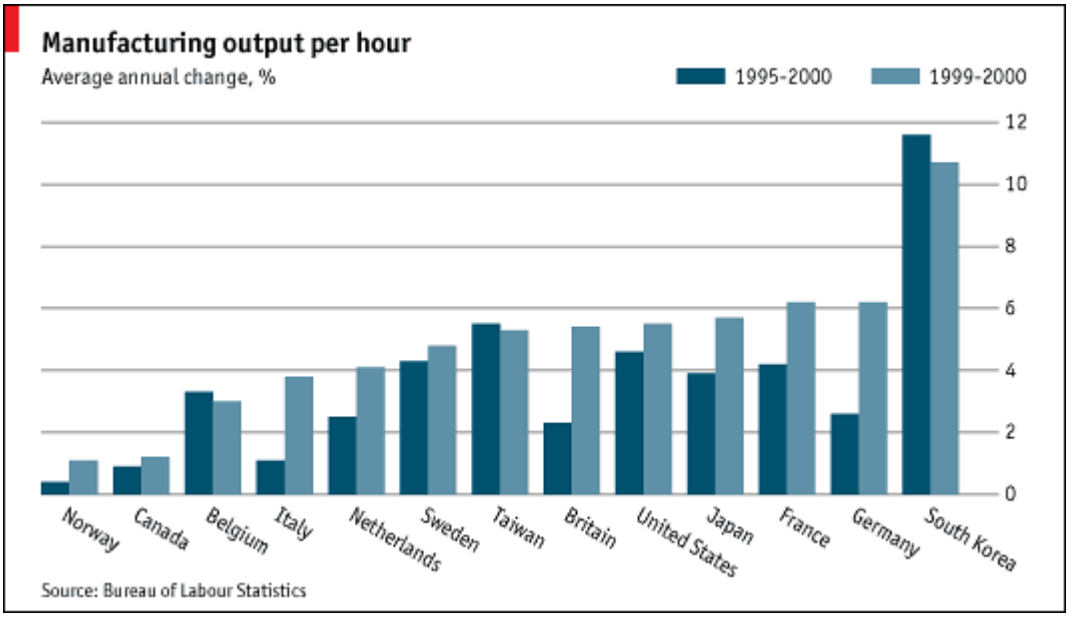
Manufacturing output per hour

May 30th 2002
From The Economist print edition



Manufacturing productivity in most rich countries, as measured by output per hour of labour, grew faster in 1999-2000 than in previous years. America's productivity in 1999 and 2000 climbed thanks to a combination of rising output and a fall in the number of hours worked. In Norway, however, productivity rose in spite of a fall in output, as hours worked fell even faster than the amount of goods produced.

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Money and interest rates

May 30th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (May 29th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+19.0	+13.9	Mar	4.91	4.97	5.43	6.24	6.08	7.29‡
Britain	+ 8.0	+ 5.7	Apr	4.13	5.19	4.70	5.24	5.17	6.21
Canada	+12.8	+ 5.7	Apr	2.60	4.36	4.12	5.53	5.98	7.20
Denmark	+ 5.8	+ 5.3	Mar	3.70	4.84	4.46	5.32	5.36	6.99
Japan	+32.6	+ 3.6	Apr	0.02	0.01	0.02	1.38	1.26	1.47
Sweden	+ 8.8	+ 6.2	Dec	4.25	4.02	5.06	5.59	5.30	5.67
Switzerland	+ 5.5	+ 3.4	Apr	1.27	3.20	2.16	3.32	3.43	4.29
United States	+ 5.8	+ 8.3	Apr	1.75	3.75	3.23	5.07	5.51	6.98
Euro area†	+ 5.8	+ 7.3	Mar	3.50	4.55	4.23	5.09	5.06	5.89

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. ‡ New series. Benchmarks: US 30-year 5.62%, Japan No.239 1.42%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

May 30th 2002
From The Economist print edition

1995=100

	May 21st	May 28th*	% change on one month	% change on one year
Dollar index				
All items	68.8	69.0	+ 0.4	- 2.0
Food	69.6	69.3	+ 1.1	+ 3.0
Industrials				
All	67.8	68.5	- 0.6	- 8.2
Nfa†	68.4	68.9	+ 1.3	- 6.5
Metals	67.3	68.2	- 2.1	- 9.5
Sterling index				
All items	74.6	74.4	+ 0.0	- 5.0
Euro index				
All items	98.6	97.7	- 2.6	- 9.9
Yen index				
All items	90.9	91.4	- 2.6	+ 1.6
Gold				
$ per oz	316.75	324.40	+ 5.4	+18.2
West Texas Intermediate				
$ per barrel	26.96	25.08	- 6.6	-13.0

* Provisional. † Non-food agriculturals.

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Stockmarkets

May 30th 2002
From The Economist print edition

Market indices

	May 29th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,333.2	3,440.0	3,252.2	- 0.2	- 3.1	- 0.8	+ 9.4
Austria (ATX)	1,318.9	1,357.2	1,114.4	- 0.5	-24.1	+15.7	+21.1
Belgium (Bel 20)	2,750.1	2,899.8	2,622.4	- 1.1	-25.3	- 1.1	+ 3.5
Britain (FTSE 100)	5,083.0	5,323.8	5,024.1	- 1.3	-26.7	- 2.6	- 2.3
Canada (Toronto Composite)	7,611.9	7,958.1	7,418.1	- 0.3	-33.2	- 1.0	+ 3.1
Denmark (KBX)	214.3	233.4	213.3	- 2.1	-29.0	- 4.6	- 0.2
France (SBF 250)	2,877.2	3,081.9	2,694.1	- 0.2	-34.5	- 3.5	+ 1.0
(CAC 40)	4,334.9	4,688.0	4,239.0	+ 0.2	-37.4	- 6.3	- 1.9
Germany (Xetra DAX)	4,881.8	5,462.6	4,745.6	- 0.8	-39.5	- 5.4	- 1.0
Italy (BCI)	1,396.7	1,513.0	1,344.9	- 0.8	-36.0	- 2.6	+ 2.0
Japan (Nikkei 225)	11,853.0	11,979.9	9,420.9	- 0.9	-69.5	+12.4	+18.6
(Topix)	1,125.8	1,139.4	922.5	- 0.3	-61.0	+ 9.1	+15.0
Netherlands (AEX)	489.5	531.2	478.3	+ 0.6	-30.2	- 3.4	+ 1.1
Spain (Madrid SE)	815.5	848.1	773.2	+ 1.4	-28.9	- 1.1	+ 3.5
Sweden (Affarsvarlden Gen)	194.9	236.8	194.9	- 1.8	-51.3	-15.8	-10.1
Switzerland (Swiss Market)	6,598.0	6,694.1	6,105.2	+ 0.2	-21.6	+ 2.8	+ 8.4
United States (DJIA)	9,923.0	10,635.3	9,618.2	- 2.3	-15.4	- 1.0	- 1.0
(S&P 500)	1,067.7	1,172.5	1,049.5	- 1.7	-30.1	- 7.0	- 7.0
(Nasdaq Comp)	1,624.4	2,059.4	1,573.8	- 2.9	-67.8	-16.7	-16.7
Europe (FTSE Eurotop 300)*	1,181.5	1,279.7	1,181.5	- 1.1	-30.7	- 6.3	- 1.9
Euro area (FTSE Ebloc 100)*	1,025.3	1,125.1	1,013.0	- 0.1	-33.9	- 7.8	- 3.5
World (MSCI)†	970.5	1,024.4	937.0	- 1.2	-33.0	na	- 3.3
World bond market (Salomon)‡	459.8	459.8	430.3	+ 0.3	- 0.0	na	+ 4.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

May 30th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† May 29th	year ago	Currency units per $ May 29th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	+ 1.0	Apr	− 9.2	Q4	− 3.6	− 3.7	77.5	72.2	1.77	1.95	2.59	1.65	1.43	0.1
Austria	− 3.0	Feb	− 3.6	Feb	− 2.2	− 2.0	100.5	99.6	1.07	1.17	1.57	–	0.86	-0.3
Belgium	+ 11.5	Mar	+ 13.0	Dec	+ 4.8	+ 4.8	99.6	98.0	1.07	1.17	1.57	–	0.86	nil
Britain	− 48.0	Mar	− 25.1	Q4	− 2.1	− 2.1	103.9	107.9	0.68	0.70	–	0.64	0.55	-0.8
Canada	+ 36.2	Mar	+ 18.9	Q4	+ 2.1	+ 2.3	78.1	78.2	1.53	1.54	2.24	1.43	1.23	1.0
Denmark	+ 7.0	Mar	+ 3.4	Mar	+ 2.2	+ 2.0	102.5	100.8	7.98	8.70	11.6	7.44	6.42	2.2
France	+ 5.4	Mar	+ 23.6	Mar	+ 1.7	+ 1.7	102.4	100.5	1.07	1.17	1.57	–	0.86	-2.0
Germany	+ 92.3	Mar	+ 13.3	Mar	+ 0.4	+ 0.4	99.4	97.3	1.07	1.17	1.57	–	0.86	-2.8
Italy	+ 8.9	Mar	+ 1.5	Feb	+ 0.1	nil	73.0	71.8	1.07	1.17	1.57	–	0.86	-1.4
Japan	+ 72.6	Mar	+ 96.1	Mar	+ 2.5	+ 2.6	133.1	142.3	124	120	181	116	–	-8.0
Netherlands	+ 22.9	Mar	+ 13.6	Q1	+ 3.7	+ 4.0	98.6	96.8	1.07	1.17	1.57	–	0.86	0.1
Spain	− 37.9	Feb	− 15.8	Feb	− 2.2	− 1.8	74.7	73.5	1.07	1.17	1.57	–	0.86	-0.3
Sweden	+ 14.0	Apr	+ 7.4	Mar	+ 2.5	+ 2.8	76.7	76.0	9.8	10.6	14.3	9.16	7.91	2.1
Switzerland	+ 2.1	Apr	+ 24.6	Q4	+ 9.5	+ 9.6	113.4	106.9	1.57	1.78	2.30	1.47	1.27	na
United States	−421.4	Mar	−417.4	Q4	− 4.2	− 4.4	116.9	119.9	–	–	1.46	0.93	0.80	-1.0
Euro area	+ 58.9	Mar	− 2.0	Mar	+ 0.3	+ 0.4	80.4	76.3	1.07	1.17	1.57	–	0.86	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.4	Mar	+ 7.5	Mar	na	na	78.6	77.1	1.08	1.17	1.58	–	0.87	3.2
Greece	− 19.1	Dec	− 7.2	Dec	na	na	57.8	56.9	1.08	1.17	1.58	–	0.87	0.4
Iceland	+ 0.1	Mar	− 0.4	Q4	na	na	na	na	92.7	104	135	86.4	74.6	-0.5
Ireland	+ 32.2	Feb	− 1.1	Q4	na	na	88.7	85.7	1.08	1.17	1.58	–	0.87	0.1
Luxembourg	− 2.9	Feb	+ 0.9	Q4	na	na	99.6	98.0	1.08	1.17	1.58	–	0.87	2.2
New Zealand	+ 0.3	Mar	− 1.6	Q4	na	na	88.9	79.8	2.12	2.40	3.09	1.98	1.71	0.1
Norway	+ 24.7	Apr	+ 22.2	Feb	na	na	104.3	95.4	8.08	9.23	11.8	7.53	6.50	14.0
Portugal	− 13.6	Feb	− 10.1	Feb	na	na	89.8	88.6	1.08	1.17	1.58	–	0.87	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast.

Text refers only to the first 16 countries listed

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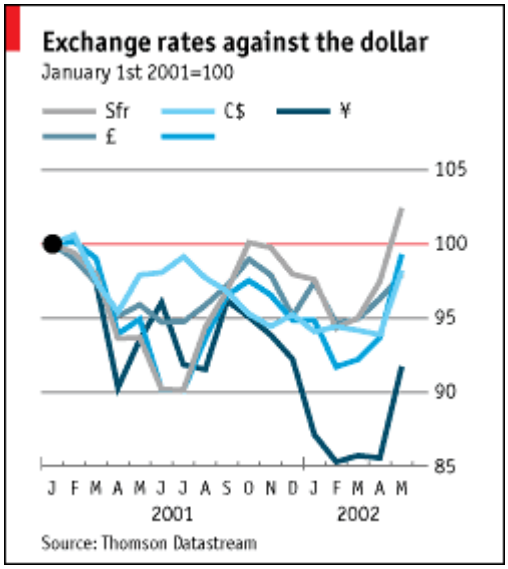
Exchange rates against the dollar

May 30th 2002
From The Economist print edition

The dollar has been losing strength everywhere over the past few months. The euro and the Swiss franc have made the biggest gains; the yen remains well below its early-2001 level.



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Overview

May 30th 2002
From The Economist print edition

Brazil's GDP fell by 0.7% in the year to the first quarter, with farming and services hit hardest. The decline was less severe than many analysts had expected. The current-account deficit, often seen as one of the Brazilian economy's biggest weaknesses, narrowed slightly in the year to April, to $19.3 billion, nearly 4% of GDP.

South Korea's economy continues to strengthen. Industrial production rose by 7.3% in the year to April compared with 4.4% growth in the year to March.

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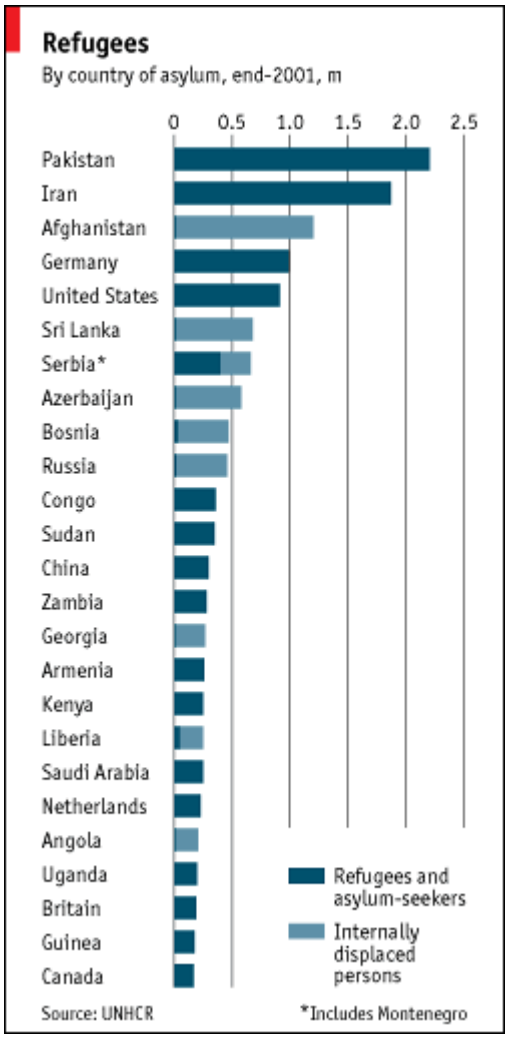
Refugees

May 30th 2002
From The Economist print edition

At the end of 2001, there were almost 20m refugees worldwide, according to new figures published by the United Nations High Commissioner for Refugees. The UNHCR's figures include asylum-seekers and people who are displaced within their own country, as well as traditional refugees. The latest figures suggest that over 5m people are internally displaced, and around a million are seeking asylum. Asia has the most refugees, 5.8m, followed by Africa with 3.3m.



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Economy

May 30th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.6	Q1	+12.1	Apr	– 1.3	Apr	+25.6	Apr	+21.2	2001§	226.7	Feb
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 3.0	Apr	– 8.8	Apr	+12.0	Q4	110.9	Apr
India	+ 6.3	Q4	+ 2.4	Mar	+ 5.2	Mar	– 5.9	Mar	– 0.1	Q4	52.5	Apr
Indonesia	+ 2.5	Q1	– 2.2	Q3	+13.3	Apr	+26.0	Mar	+ 8.4	Q3	27.3	Apr
Malaysia	+ 1.1	Q1	– 3.5	Mar	+ 1.9	Apr	+14.1	Mar	+ 6.9	Q4	32.8	Apr
Philippines	+ 3.8	Q1	– 1.2	Mar‡	+ 3.6	Apr	+ 2.3	Mar	+ 5.0	Feb	14.6	Apr
Singapore	– 1.7	Q1	+ 8.1	Apr	– 1.1	Apr	+ 5.7	Apr	+18.4	Q1	76.6	Apr
South Korea	+ 5.7	Q1	+ 7.3	Apr	+ 2.5	Apr	+ 9.3	Apr	+ 7.0	Apr	107.6	Apr
Taiwan	+ 0.9	Q1	+ 7.5	Apr	+ 0.2	Apr	+18.3	Apr	+22.0	Q1	132.9	Apr
Thailand	+ 2.1	Q4	+ 8.4	Mar	+ 0.4	Apr	+ 3.2	Mar	+ 6.6	Mar	32.9	Mar
Argentina	–10.7	Q4	–16.7	Mar	+18.4	Apr	+ 9.8	Mar	– 4.4	Q4	12.8	Mar
Brazil	– 0.7	Q1	– 3.8	Mar	+ 8.0	Apr‡	+ 4.7	Apr	–19.3	Apr	33.0	Apr
Chile	+ 1.7	Q4	+ 6.6	Apr	+ 2.5	Apr	+ 1.7	Apr	– 1.0	Q1	14.0	Feb
Colombia	+ 1.7	Q4	– 0.5	Feb	+ 5.7	Apr	+ 0.6	Mar	– 1.7	Q4	10.4	Apr
Mexico	– 2.0	Q1	– 7.6	Mar	+ 4.7	Apr	– 9.3	Mar	–16.8	Q1	46.2	Mar
Peru	+ 1.6	Mar	+ 0.3	Feb	+ 0.1	Apr	+ 0.1	Mar	– 1.0	Q1	8.7	Apr
Venezuela	+ 2.8	Q3	+ 9.7	Jan	+18.7	Apr	+ 9.8	Q4	+ 2.1	Q1	6.6	Feb
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.5	Feb	– 8.6	Jan	– 0.1	Q4	12.6	Jan
Israel	– 4.2	Q1	– 6.9	Feb	+ 5.0	Apr	– 5.9	Apr	– 1.7	Q4	24.0	Apr
South Africa	+ 2.1	Q1	+ 3.9	Mar	+ 8.0	Apr	+ 3.8	Mar	– 0.2	Q4	6.0	Mar
Turkey	–10.4	Q4	+18.7	Mar	+52.7	Apr	– 8.0	Mar	+ 4.3	Feb	23.6	Apr
Czech Republic	+ 3.2	Q4	+ 4.1	Mar	+ 3.2	Apr	– 2.4	Apr	– 2.7	Q4	15.9	Apr
Hungary	+ 3.3	Q4	+ 4.2	Mar	+ 6.1	Apr	– 2.2	Mar	– 1.4	Mar	10.1	Apr
Poland	+ 0.3	Q4	+ 0.2	Apr	+ 3.0	Apr	–11.1	Mar	– 0.8	Apr	26.2	Apr
Russia	+ 3.7	Q1	+ 4.3	Apr	+16.3	Apr	+45.0	Mar	+31.2	Q1	35.0	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+16.3	Jan	+ 3.3	Apr	– 1.0	Apr	+ 0.3	2001†	4.0	Mar
Saudi Arabia	+ 1.7	2001§	na		nil	Feb	+37.5	2001§	+ 8.3	2001	17.6	Mar

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

May 30th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 29th		Dec 31st 2001	
	May 29th	year ago	May 29th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.1	na	1,591.4	-2.5	- 7.1	- 7.1
Hong Kong	7.80	7.80	11.4	1.83	11,430.7	-3.1	+ 0.3	+ 0.3
India	49.0	47.0	71.5	6.96	3,160.2	-0.5	- 3.1	- 4.6
Indonesia	8,850	11,395	12,920	16.53	520.7	+1.8	+ 32.8	+ 56.1
Malaysia	3.80	3.80	5.55	3.25	763.1	-1.3	+ 9.6	+ 9.6
Philippines	50.1	50.6	73.1	5.94	1,323.4	+0.3	+ 13.3	+ 16.7
Singapore	1.79	1.81	2.62	0.88	1,684.4	-3.1	+ 3.7	+ 6.9
South Korea	1,224	1,289	1,787	4.83	835.2	-3.2	+ 20.4	+ 29.2
Taiwan	34.2	34.0	49.9	2.45	5,623.2	+1.5	+ 1.3	+ 3.8
Thailand	42.5	45.4	62.0	2.13	409.1	+5.7	+ 34.6	+ 40.2
Argentina	3.51	1.00	5.12	55.10	339.3	-3.5	+ 14.9	- 67.3
Brazil	2.52	2.36	3.68	18.42	12,985.1	+5.0	- 4.4	- 12.3
Chile	654	610	955	3.96	5,143.3	-1.8	- 4.7	- 3.7
Colombia	2,317	2,326	3,382	9.12	1,160.0	+1.1	+ 8.3	+ 6.5
Mexico	9.62	9.16	14.0	6.93	7,130.7	-3.4	+ 11.9	+ 6.7
Peru	3.47	3.62	5.06	2.43	1,249.0	+1.1	+ 6.3	+ 5.5
Venezuela	1,086	715	1,585	38.36	7,476.0	+3.6	+ 13.8	- 20.6
Egypt	4.63	3.86	6.76	7.19	5,377.5	+0.5	+ 2.0	+ 0.8
Israel	4.95	4.13	7.22	3.18	373.0	-1.6	- 16.5	- 25.6
South Africa	9.8	7.96	14.3	12.05	11,360.1	-2.5	+ 8.8	+ 33.0
Turkey	1,418,000	1,161,000	2,070,138	43.00	10,806.5	+1.9	- 21.6	- 19.5
Czech Republic	32.8	39.9	47.9	3.81	465.2	+0.1	+ 17.9	+ 27.8
Hungary	261	296	381	9.21	8,179.8	-1.7	+ 14.7	+ 20.6
Poland	4.04	4.00	5.90	9.58	15,715.8	+0.8	+ 12.9	+ 10.4
Russia	31.3	29.1	45.7	23.00	381.3‡	-7.9	+ 50.6	+ 46.6
EMF (MSCI)*	1.00	1.00	1.46	na	353.2	-0.8	na	+ 11.3
EMBI+†	1.00	1.00	1.46	na	213.9	-0.2	na	+ 6.8

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Correction

May 30th 2002
From The Economist print edition

In our focus box, "Emerging stockmarkets" (May 18th), we incorrectly stated the stockmarket capitalisations as billions of dollars. The chart should have said trillions of dollars. Sorry.

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